COOPERATION SOUTH 2003

UNITED NATIONS DEVELOPMENT PROGRAMME

COOPERATION SOUTH

2003

CONVERGENCE:
Movements for Regional Integration

The creativity of 4.7 billion people

The cover designs used on issues of this journal present artifacts or artworks that demonstrate the creativity and connectivity of people across the south.

Ancient City of Rock, Trade and Precious Water

Our cover shows what travelers first see when approaching the ancient city of Petra through a narrow, winding gorge deep in the Jordanian desert. Petra was founded around 300 BC by Nabateans — Arabian nomadic desert traders who settled down and gained control of the caravan routes leading from Asia and Arabia to the Mediterranean region. At its height, around AD 50, the city and its environs boasted as many as 20,000 residents.

Seen through the narrow cleft in the rock is the Treasury — one of nearly 3,000 structures chiseled by hand into the sandstone cliffs (Petra means rock). The city had an expansive business district, an ampitheatre seating 8,000, baths, two major temples, over 100 ritual banquet halls, many dwellings, altars and 600 monumental tombs.

Water for people, crops and herds came from springs miles away. About 40 million liters (12 million gallons) a day were channeled through gutters cut into rock lined with watertight plaster and through terracotta pipes. By gravity, these lines fed 200 cistern tanks and many reservoirs. Also, a dam and tunnel carried winter flood water diverted from a stream, and scarce rainwater (15 cm or 6 inches a year) was carefully conserved.

Sustained by water, Petra was financed by tolls, taxes and services paid by traders and by its profits on product sales as far away as Damascus, Cairo and Rome. Popular commodities moving through Petra included frankincense and myrrh; silk from China; spices, pearls, ivory, gemstones, fine textiles, and rice from India; and exotic art and fine wares imported from many foreign marketplaces.

In the third century AD caravan trade lost out to Red Sea routes and the rival city of Palmyra rose to the north. By the seventh century Petra was empty, until modern archaeology rediscovered its glories, and its ruins became a major tourist attraction, a three-hour drive from Amman.

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COOPERATION SOUTH

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The centre of the emblem — where the Southern, Northern, Eastern and Western parts of the world join — symbolizes a further and ultimate objective of TCDC: the promotion of a truly global partnership for development.

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* This is the only edition of *Cooperation South* for 2003.

For further reading on comparative regional integration studies, see www.cris.unu.edu

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FROM THE ADMINISTRATOR

Building Structures of Regional Cooperation

In many respects, our world is increasingly borderless. Migrating workers and expanding transnational corporations have internationalized many factors of production. From satellites to the internet, instantaneous communication is possible from almost any corner of the world to any other. The HIV/AIDS pandemic and new health scares like SARS pay no attention to national and geographic dividing lines. And of course, global terrorism selects its targets without regard for political boundaries.

One positive development that transcends national borders is the rise of regional economic cooperation and integration among neighbouring countries. Regionalism has become progressively more fashionable in the developing world over the past half century. Today it provides some of the most visible, easily recognized and extensive evidence of South-South cooperation at work.

Regional integration movements take many forms — free trade areas, customs unions, common markets, economic unions and full regional integration. Most have their origins in trade arrangements – more than 80 are currently in force — and then seek broader forms of agreement and joint action. The initial difficulties of reducing customs and eliminating trade restrictions can be daunting, especially for the poorer, more fragile economies. Typically, there are many setbacks along the way, ranging from weakening political will among the partners to worsening international conditions. It is often difficult to keep a focus on the potential longer-term benefits of expanded markets, mutual specialization and comparative advantage.

The most extensive movements are continent-wide, such as the African Union and the Latin American Economic System, or SELA, with 53 and 28 member states respectively. Each region contains many groupings with overlapping memberships, sometimes

contradictory provisions and objectives ranging from mere consultation to ultimate political unity. Some are relatively long lasting, such as ASEAN (Association of South East Asian Nations), which was formed in 1967 and covers a population larger than the United States or the European Union. Others have expired only to re-emerge in different forms, such as the East African Community, launched under colonial rule in 1947, breaking down in 1977, and reconstituted in 1991 as a customs union with growing economic, environmental, social and political dimensions.

This issue of *Cooperation South* takes up this theme of regionalism. Our authors weigh the history and current status and the problems and prospects of some of the key regional groupings among developing countries. By analysing and assessing their success in promoting trade, harmonizing policies, setting new joint strategies and launching joint investment, this issue offers valuable lessons on how to move forward and build lasting, effective structures of cooperation between developing countries.

Mark Malloch Brown

Mark Malloch Brown, Administrator
United Nations Development Programme

CATCH-UP AND CONVERGENCE: Regional Integration in Southern Africa

BY CAROLYN JENKINS

Southern African countries are trying to create a free trade area by 2012 that could untie about 90 per cent of intra-regional trade. Such regional trade agreements may be fashionable, but how well do they work in promoting multi-country development, and especially in helping poorer countries 'catch up' with richer members of the group? A review of this experience is provided by Carolyn Jenkins of the Centre for the Study of African Economies, Oxford University.

REGIONALISM is not a new phenomenon in Africa. Indeed, the world's oldest customs union exists in Southern Africa, and the continent's list of both past and present multilateral economic agreements is probably longer than that of any other. Africa's record of creating and sustaining regional frameworks is generally poor, although some successful examples of regional cooperation do exist. Examples are the Southern African Customs Union (SACU), the Common (Rand) Monetary Area (CMA), and the CFA Franc Zone. It is interesting to note that each of these relatively successful initiatives involves links with a more developed partner. In SACU and the CMA, the partner is South Africa, and the CFA franc was previously linked to the French franc and is now linked to the euro.

The presence of a more developed 'North' element in regional integration initiatives among developing countries should, in theory, trigger convergence processes, accelerating economic growth in poorer members. There are, however, political problems with the inevitable asymmetric pattern of trade. Moreover, the more developed members might require a different trade strategy from

those countries with which they are economically linked.

The focus of this article is the process of intra-regional trade liberalization in the Southern African Development Community (SADC). Some of the implications of a free trade area (FTA) are highlighted by comparing the extent of convergence within pre-FTA SADC with that which has occurred after many years of free trade within SACU. This gives an indication of the potential importance of this initiative. In addition, some of the possible barriers to continued economic cooperation are highlighted.

It is argued that, historically in Southern Africa, more rapid economic growth has occurred in groups involving South Africa. For this reason, the creation of a FTA could be important for all members of SADC. However, it is not sufficient as a trade strategy, and should complement and not replace more general liberalization of trade with extra-regional partners.

Almost all regional trade initiatives in Africa have achieved very little, in spite of their political appeal.

REGIONALISM IN SOUTHERN AFRICA

Overlapping commitments

Almost all regional trade initiatives in Africa have achieved very little, in spite of their political appeal. Many schemes were designed without regard for members' incentives to comply; implementation sometimes has not been feasible, as countries have overlapping and incompatible membership of different regional arrangements; and members have frequently substituted non-tariff barriers for tariffs against each other. Domestic economic policies have also undermined the effectiveness of African trade integration schemes. Moreover, the structure of demand and production is too similar across African countries to generate substantial trade creation.

Nevertheless, African policy makers continue to pursue broader economic cooperation as a potential solution to small markets and generally weak economies. Political interest in regionalism has received added impetus in recent years as a result of growing fears of African marginalization. The expansion of the EU to encompass Eastern European states and the increasing integration of the Americas, for example, have created the perception that Africa risks being left behind in the formation of regional economic blocs, with adverse consequences for trade and investment.

In Southern Africa, a range of integration initiatives are being pursued simultaneously. Fourteen countries are involved in SADC. In mid-1996 the (then twelve) members signed a trade protocol, which

TABLE 1: MEMBERSHIP OF REGIONAL GROUPINGS

SADC	COMESA	SACU	CMA	CBI
Angola	■			
Botswana		■		
DR Congo	■			
Lesotho		■	■	
Malawi	■			■
Mauritius	■			■
Mozambique				■
Namibia	■	■	■	■
South Africa		■	■	observer
Swaziland	■	■	■	■
Tanzania	■			■
Zambia	■			■
Zimbabwe	■			■

Note: SADC: Southern African Development Community
COMESA: Community of Eastern and Southern Africa
SACU: Southern African Customs Union
CMA: Common (Rand) Monetary Area
CBI: Cross-Border Initiative

committed them to phase out customs duties and other equivalent measures in the process of establishing a free trade area. In the end, two offers were tabled — one relating to South Africa, and one 'differentiated' programme relating to all other members. Eleven signatories have been working towards implementation by 2012. The establishment of the free trade area is expected to mean the freeing of about 90 per cent of intra-regional trade, in line with the rules of the World Trade Organization, which state that 'free trade' should cover 'substantially all' trade. SADC is not the only regional integration initiative in which Southern African countries currently participate (table 1). Many are members of the Community of Eastern and Southern Africa (COMESA); others are involved in the Cross-Border Initiative (CBI), a low-key cooperation effort. A small subset are involved in the long-standing SACU and the CMA. Tanzania belongs to the East African Community. Overlapping memberships of regional initiatives are com-

mon across Africa and provide a confusing picture of priorities. This is another reason why many of these initiatives have not been sustainable.

A process of realignment of trade initiatives has been underway for the past decade. In parallel with the SADC negotiations, the members of SACU were involved in sensitive renegotiation of the Customs Union agreement. South Africa signed a trade, development and cooperation agreement with the European Union, the climax of talks that commenced in 1995. All other members of SADC have non-reciprocal preferential access to the EU under the Lomé Convention, and are concerned about the trade-diverting effects of the agreement between South Africa-SACU and the EU. At the same time, a reappraisal of Lomé is prompting a general review of the trade relationships between the EU and its developing Lomé partners. In addition, SADC countries also have to think through their response to the new round of World Trade Organization-led negotiations, which commenced with the Doha meeting in 2001, to the offers made for US-SADC cooperation under the American-led African Growth and Opportunity Act, and to developments within Africa involving the Community of Eastern and Southern African States, the revived East African Community and the Cross-Border Initiative. (Fourteen countries participate in the intiative, which aims to facilitate cross-border activity by eliminating barriers to cross-border flows of goods, services, labour, and capital, as well as to integrate markets, without creating a new institution.)

The 'problem' of South Africa

SADC is, arguably, more likely than some other initiatives to provide the basis for successful economic cooperation due to the participation of South Africa, the continent's largest economy, which accounts for nearly one quarter of total African GDP. Part of the problem facing most African regional groupings is the lack of a large, more developed partner to provide both a significant regional market and a source of external capital and expertise, particularly in regionally integrated production processes. The involvement of South Africa — representing around 70 per cent of SADC's GDP — in SADC has alleviated this constraint to some extent by improving the potential for cross-border trade and investment with a relatively large and more developed neighbour. (It is not suggested that the relief of this constraint necessarily confers success: SADC is currently divided politically, as discussed below, while other regional groupings, notably COMESA and the new East African Community, are showing considerable political commitment to closer integration.)

South Africa's size relative to its neighbours has several important implications for regional trade. First, the relationship is asymmetric in that South

Africa is much more important to the region than the reverse. Second, South Africa runs, and will continue to run, a substantial trade surplus with its regional trading partners individually as well as collectively. The imbalance has widened considerably as South African penetration of the region has increased over the past decade, and the trend will continue regardless of whether a free trade area is established or not. Unilateral trade liberalization has given all exporters greater access to SADC markets. The reconstruction of Mozambique, funded by aid, creates opportunities that South Africa is well placed to meet. South Africa's semi-Lomé status means that inputs from South Africa now count as 'local content' in SADC exports to the EU. And South Africa's reintegration into Africa has improved its ability to receive and send trade delegations. The formation of a SADC free trade area will only magnify these trends.

Intra-regional trade (with the exception of mineral exports) is heavily oriented towards South Africa. With the exception of Botswana, the smaller members of the SADC trade very little in comparison with each other, but substantially with South Africa. Intra-SADC trade, excluding South Africa, is about 4 per cent of total SADC trade, while trade with South Africa is 25 per cent of total SADC trade. Even these proportions are understated, because they do not take into account informal trade.

South Africa's trade regime has exacerbated the difficulties faced by its neighbours in gaining access to its significantly larger market. Although South African rates of effective protection are not particularly high for many goods, selectivity created a tariff structure characterized by large differences in tariff levels among and within sectors. Consequently, the moderate *average* level of protection in South Africa does not necessarily imply that the countries of the region have not faced a high tariff wall. Effective rates of protection have in fact been highest for those products that are or could be produced in the region (like earthenware, clothing, footwear, textiles, foodstuffs and wood products). In some of these industries, protection made penetration of the South African market without preferential access impossible. Moreover, South Africa has not hesitated to erect tariff barriers against neighbouring countries when their exports are seen to threaten South Africa's interests, even against countries within the SACU (car imports from Botswana in 1995) or in violation of a trade agreement (textile imports from Zimbabwe in 1992). These problems are now, in the main, being addressed, as South Africa has virtually eliminated quantitative restrictions and is reducing tariffs. Nervousness and suspicion are, however, harder to dispel.

Moreover, the trend of increasing South African penetration of the region does pose a threat to South Africa's competitors in Southern Africa, particularly Zimbabwe. Even during the sanctions era, South Africa's trade in the region

grew faster than that of Zimbabwe. With the end of sanctions, South Africa's aggressive marketing in the rest of Africa means that regional competitors will have to better South African producers in terms of price, quality and reliability in order to win markets that may have been easier to gain during the 1980s.

It does not follow that South Africa will swamp regional markets. Regional competitors have some cost advantages over South Africa: cheaper labour; lower transport costs to countries to the north; and a better knowledge of local conditions, which reduces information costs. Obviously South African competition will most affect uncompetitive, inefficient or backward sectors, but some exporters in Botswana and Zimbabwe are competing effectively in SACU countries, where South Africa holds the advantage of proximity and an integrated goods market. Moreover, low investment ratios for an extended period mean that South Africa is hitting capacity constraints. Therefore, there are limits to the expansion of South African exports in the short to medium term.

Moreover, the asymmetry of the trade relationship between South Africa and its neighbours does not mean that the region is of no significance to South Africa. It is particularly important as a market for manufactured exports, which may be less competitive in European, American or Asian markets. These exports can compete in Africa because of proximity, which reduces delivery times, and better access to parts and servicing technicians. Almost two-thirds of South Africa's manufactured exports are sold to other African countries, the range of exports being virtually as wide as the range of South African products. (The most important are invisibles [services], food, steel, domestic appliances, building materials and paper products.) For this reason, South African exporters are interested in the maintenance of trade links with the region, and South African policymakers are anxious that the FTA 'works.'

REGIONAL INTEGRATION AND ECONOMIC CONVERGENCE

The extent of convergence in Southern Africa

Regional trade liberalization enables members — especially the poorer ones — to reap some of the gains from trade via larger markets and improved efficiency, without exposure to non-regional competition. There is evidence that the poorer countries in regional trade groups catch up with (converge on) richer ones through the process of trade. The countries start with *per capita* income levels that vary widely from the average for the group, but this difference diminishes over time.

Consider the European Union for comparison purposes. Since the formation of the Common Market in the 1950s, the *per capita* incomes of EU members have come closer to each other; there is now more convergence and less divergence

BOX 1: CONVERGENCE AMONG COUNTRIES IN REGIONAL GROUPS, 1960–1990

FIGURES 1 to 3: Convergence in per capita income

Downward sloping lines show that the economic divergence among member states decreases over time in EU and SACU (as measured by the standard deviation of the log of their per capita incomes).

FIGURE 1: European Union (EU)

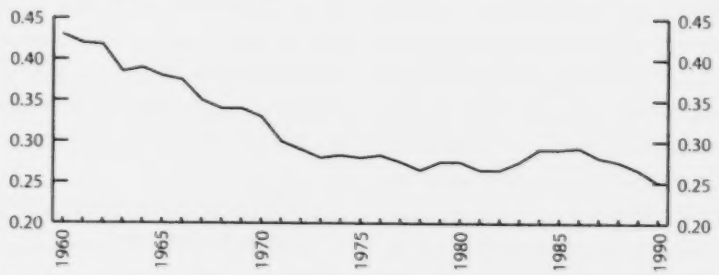


FIGURE 2: Southern Africa Development Community (SADC)

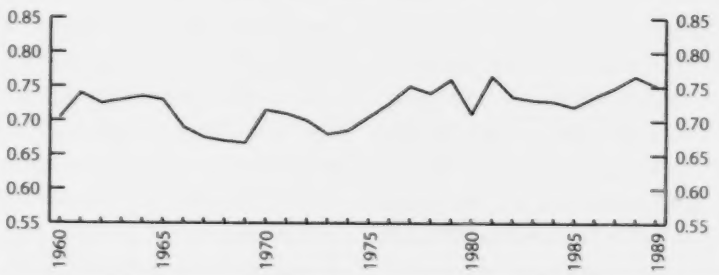
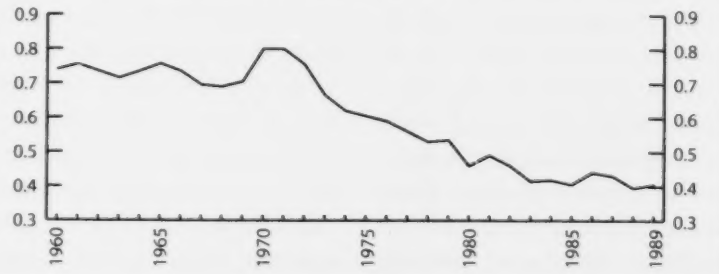


FIGURE 3: Southern African Customs Union (SACU)



BOX 1: *continued*

FIGURES 4 and 5: Relationship between per capita income in 1960 and subsequent growth to 1990

When countries that are initially poorest grow faster than the richer ones, 'catching up' with richer economies, they stand closer together on the chart.

FIGURE 4: European Union (EU)

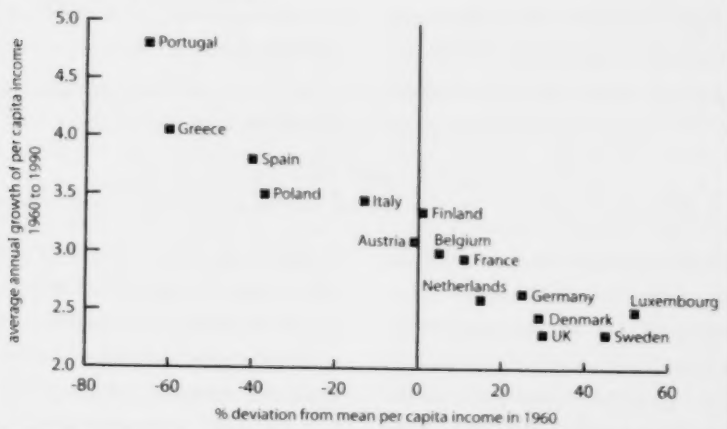
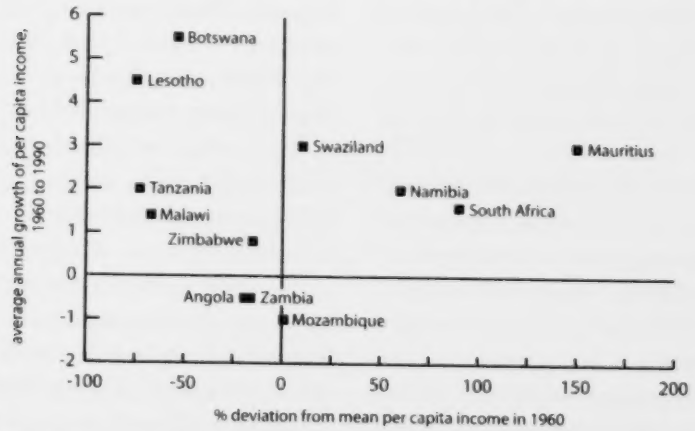


FIGURE 5: Southern Africa Development Community (SADC)



among them. As shown by the downward sloping line in figure 1, the difference between them almost halved between 1960 and 1990. There was some interruption to this trend in 1982-83, when a degree of divergence occurred, but it was subsequently reversed.

The calculations for SADC members are plotted in figure 2. In contrast to the convergence evident in the data for EU countries, as shown by reduced divergence in their per capita incomes, the pattern for SADC countries is essentially flat, indicating that no convergence in per capita incomes has occurred over the 30-year period. Indeed, the degree of dispersion was marginally higher at the end of the period than at the beginning, suggesting that the countries have, if anything, *diverged* slightly. The absence of convergence among the SADC countries may be due to several factors, including different responses to the oil and exchange-rate shocks of the 1970s, different problems with indebtedness, and the uniquely domestic policy issues that have promoted or slowed growth.

If, however, the sub-sample of five SACU member countries is examined separately, as shown in Figure 3, a strikingly different pattern emerges. Although the intra-SACU dispersion of per capita incomes held roughly constant through the 1960s, it dropped steadily in the 1970s and 1980s. The result of this downward trend was that the dispersion at the end of the period was little more than half what it had been at the beginning — a degree of convergence that slightly *exceeds* that evident in the EU countries over the same period. Note that neither the oil price shocks of the 1970s nor the gold price shock of 1980 — both of which would have had asymmetric effects on the SACU countries — caused any significant interruption to this pattern.

Poorer countries in regional trade groups tend to catch up with richer ones through the process of trade.

Another measure of convergence charts the average growth rate of each country's GDP over a period and plots where the resulting per capita income of each country stands in relation to the mean per capita income of all members of the group. When countries that are initially poorest grow faster than the richer ones, 'catching up' with richer economies, they stand closer together on the chart.

Time-averaged growth rates for the period 1960-1990 for members of the EU (figure 4) and SADC (figure 5) are plotted against initial (1960) GDP per capita relative to the regional average. Again as a point of comparison, in 1960, the poorest country in Europe in per capita income terms was Portugal, whose income per head was 64 per cent below the European average in 1960. During

the next 30 years, it grew by an average of 4.8 per cent in real terms annually — the highest rate for all EU countries. By 1990, Portugal was still the poorest country, but its per capita income was only 50 per cent lower than the European average. On the other hand, Britain and Sweden, with per capita incomes of 30 and 45 per cent above the average respectively in 1960, grew most slowly over the decade.

Figure 5 shows that, using this second measure, there is no pattern of convergence among Southern African economies over the period. Almost all of the below-average economies in per capita income terms had below-average growth rates over the period, while Mauritius began best-off in 1960 and experienced growth in real per capita income of, on average, 3 per cent each year for 30 years.

However, if one looks at the subset of SACU countries, there is again a very clear trend of convergence, with initially low-income Botswana and Lesotho converging on Swaziland, Namibia and South Africa, but diverging from Malawi and Tanzania, which began with similar levels of per capita income.

Both measures of convergence demonstrate that SADC countries have, if anything, diverged over the 30 years between 1960 and 1990. This implies that the relatively rich have been getting richer, while the poor have been getting poorer. It should be noted that there is *no reason* to expect that the SADC countries should have converged, as free trade in the community is a very recent ideal. However, within the customs union, movements of goods have been free for most of the century and smaller members have grown rapidly, particularly since the early 1970s.

The possible reasons for convergence in SACU include (i) free trade between members, (ii) transfers from South Africa to other members under an enhanced customs revenue formula, (iii) the existence of a currency union (Botswana is not a member of the Common Monetary Area, but the pula tracks the rand), (iv) similar (comparatively conservative) macroeconomic policies; or (v) country-specific factors that have little to do with regional arrangements. These explanations are not mutually exclusive: cases (ii) to (v) do not rule out the importance of international trade in driving convergence in SACU. Although this evidence is not conclusive, it seems likely that access to the South African market has allowed smaller members to escape the limitations imposed by small domestic markets, and this trend is at least consistent with that of other regions, both developed and developing.

The potential benefits of the foreign trade area

The existence of one convergence club in Southern Africa provides some grounds for optimism that 'catch-up' convergence could also occur in a more closely integrated SADC. Smaller members of SADC stand to gain from regional integration in a variety of ways.

- South Africa is more than three times the size of the *sum* of the economies of the other SADC members, each of which therefore stands to increase their export markets substantially, with the potential for reaping economies of scale in domestic production.
- While exposure to South African competition will inevitably eliminate some production, more efficient firms will improve productivity and output, and diversification into products for the comparatively large South African market can be expected.
- Exposure to South African competition will help prepare smaller countries for greater integration into the world economy, by enhancing both quality and productivity and thereby competitiveness.
- Countries undergoing donor-funded structural adjustment programmes will find the credibility of their trade liberalization enhanced, because the policy lock-in mechanism of a regional FTA should be more effective than liberalization under structural adjustment has proved to be. If SADC develops an effective enforcement procedure, the costs of reversal of the SADC process could be high for a defaulting member, making it more likely that policy changes will be sustained.
- Outward investment from South Africa will both increase resources (access to savings and foreign exchange) and provide opportunities for technology transfers and better integration with South Africa's more sophisticated financial markets.
- Greater two-way trade together with foreign (mainly South African) investment should generate industrial development and help diversify production into non-traditional exports.

South Africa also stands to benefit from the regional free trade area:

- There should be some market expansion, particularly for manufactured output, with two caveats: First, in aggregate the SADC market is considerably smaller than South Africa's total (formal) domestic market; and second, market penetration by South African exporters will probably occur anyway, even without a SADC FTA.
- The FTA will increase opportunities for profitable cross-border investment, not least by improving the flow of information.
- South African investment in the region will generate additional demand for South African goods, with second-round growth effects for existing firms.
- Slower inward cross-border migration should occur if the neighbours are expanding their economic — and especially industrial

— capacity. Higher rates of economic growth from increased trade and greater investment should create jobs in the smaller countries, some of which are exporting labour both legally and illegally to South Africa.

Regional trade liberalization is not in itself a solution to creating economic growth in the region. There are three important points that need to be considered. The first is that South Africa should not be tied to the region at the expense of pursuing wider economic opportunities; second, that regional integration should be viewed as a first step in the process of wider trade integration; and finally, SADC governments need to adopt macro and microeconomic policies that are consistent with promoting trade and investment.

Regional integration will not be enough for South Africa

One of the implications of the notion of convergence clubs is that there may be limits on how much growth performance can be enhanced via regional arrangements. 'Catch-up' implies that the benefits in terms of economic growth are greater the lower the initial level of income. In other words, the richest member is constrained in the extent to which economic growth can be accelerated by the forces driving catch-up. This suggests that, if South Africa is to improve its own growth performance, it will need to look beyond the region.

Securing higher future rates of economic growth in South Africa and in the region as a whole requires that South Africa expand its trade agreements beyond that with SADC. There are three reasons for this.

First, South Africa does not reap significant dynamic gains from regional trade. On average, it has superior technology, is the source of most of the region's investment, gains no enhanced credibility, and has limited opportunities to reap economies of scale.

Second, many of the non-SACU members of SADC are instinctively protectionist, and regional integration is seen by some of them as an *alternative* to unilateral liberalization. A frequently raised motivation for regional integration in Africa is a lowering of dependence on OECD economies. In this way, their agenda is different from that of South Africa (and the other SACU members), which has embarked on a process of closer integration into the world economy via unilateral liberalization under its WTO agreement.

Finally, South Africa needs to be in a position where it will have the opportunity to converge on both high-income and fast-growing economies, and it should look to establish a network of reciprocal free trade agreements with partners such as the EU, NAFTA, East Asia and possibly Australasia. It is in the interests of SADC as a whole for the dominant partner to accelerate its growth through expanding trade with the rest of the world.

BARRIERS TO REGIONAL INTEGRATION

In spite of the potential benefits, there are several reasons why regional integration may not be sustainable in Southern Africa.

First, there are considerable political tensions in SADC. Domestic conflicts may undermine progress towards the formation of the free trade agreement. For example, hostilities in Angola and the Democratic Republic of Congo, as well as Zimbabwe's economic decline, have disrupted their compliance with the free trade agreement. Foreign-policy tensions surfaced during 1998 following the intervention by some member states in the war in the Democratic Republic of Congo, and there is internal friction over the crisis in Zimbabwe. Underlying many of these tensions in Southern Africa is a fear of the dominance of South Africa. There is a clear need for South Africa to be seen to be taking the concerns of its smaller neighbours seriously. South Africa has shown some willingness to make concessions — such as opening its markets to regional partners more rapidly than called for as part of the proposed SADC free trade agreement and accepting in principle a SACU secretariat. But South Africa does still demonstrate a tendency to assume regional leadership. It has yet to be seen whether the asymmetric phase-in of the SADC free trade agreement. will be enough to allay fears of polarization of industry in South Africa as a result of integration. If it is not, and if the current climate of suspicion of South African intentions is not improved, then the development of regionalism may not be sustainable in Southern Africa.

Second, there are economic obstacles to regional trade integration. International experience shows that inconsistencies between the macroeconomic policy package and the trade regime tend to undermine trade liberalization, whether regional or unilateral. In at least half of SADC members, the macroeconomic position is incompatible with freeing trade. For example, if the government deficit is large, investment in export capacity is restricted, either because the private sector is crowded out of access to domestic savings or because higher interest rates raise both the direct cost and the risk of investment. To avoid this, governments may borrow offshore, but this adds to the external debt burden. Moreover, an appropriate exchange rate policy is of crucial importance in supporting trade liberalization initiatives. Any removal of trade restrictions must be accompanied by currency depreciation to provide some protection for domestic producers. If the domestic exchange rate is overvalued — either because the government has large international debt obligations and will not devalue, or because price inflation is higher than the rate of currency depreciation — then there will be a reluctance to invest in the production of processed exports. Large budget deficits and/or an overvalued currency are therefore incompatible with trade liberalization.

Third, there are structural impediments to regional integration. The most serious of these is the transport network. Since its inception SADC has given priority to investment in transport and communications, recognizing that the efficient movement of people, goods and services is the key to successful regional cooperation and integration. Despite its efforts, however, transport and communications problems still represent a major non-tariff barrier affecting in particular the competitive position of the smaller landlocked countries.

CONCLUSION

Regional trade agreements are fashionable. Although many developing countries are, or are likely to become, involved in negotiating such arrangements, it is still not clear whether they advance or retard multilateralist and developmental objectives. Economic analysis cannot supply a definitive answer, partly because of the great variety of trade agreements, but it can identify the key questions to be asked of any proposal. Agreements that liberalize a high proportion of participants' trade, extend the boundaries of trade policy in ways that are compatible with multilateral accords, and ease barriers vis á vis nonmembers are generally to be preferred to those that do not.

Even if Southern African countries succeed in reaching an agreement that contains all of these ideals, there is a possibility that regional integration could still founder on political conflict — a point that has been repeated at several points in this article. There is potential for the meaningful cooperation that currently exists in SACU/CMA to be extended to other countries in the region. The question is whether such cooperation can be made sustainable. It is important that the underlying political tensions in the region are addressed so that they do not become a destabilizing factor in the process of integration.

The SADC community as a whole needs to adopt an outward-looking focus rather than a narrow regional view. For South Africa, this is particularly important for accelerating its own economic growth. Regionalism in Southern Africa should be seen as a step towards increased participation in the global economy. In particular, the SADC free trade agreement could become a means for pursuing trade agreements with a range of developed and developing regions.

Regionalism in Southern Africa should be seen as a step towards increased participation in the global economy.

Finally, coordination of supplementary activities, many of which are within existing institutional divisions of SADC, will be of increasing importance as the region becomes more integrated. Regional

cooperation across a wide range of sectors, like transport and communications, macroeconomic policy and extra-regional trade negotiations, could contribute to creating consistent policy frameworks for increasing trade and cross-border investment. South Africa's role is important, but much of the responsibility in this area will ultimately lie in the hands of the domestic governments themselves.

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What kind of Trade Integration helps Latin America the most?

BY JOSEFINA MONTEAGUDO AND MASAKAZU WATANUKI

What types of trade agreement would achieve the best growth results for countries in Latin America and the Caribbean? Study of a simulation model shows that North-South arrangements tend to be better for export stimulus and trade growth in the developing countries of the region. However, South-South agreements help the more advanced developing countries increase their specialization in value-added goods. Constructing and analysing the model are Josefina Monteagudo, an economist, and Masakazu Watanuki, a trade consultant, both with the Inter-American Development Bank in Washington D.C.

OVER THE LAST DECADE and a half, trade integration has proliferated across the world, as renewed regionalism has gained momentum. In Latin America and the Caribbean, countries have reactivated their regional agreements and created new subregional initiatives in an effort to increase their competitiveness in a globalized economy. In the 1990s, they launched more than 20 free trade agreements. Included are South-South agreements such as Mercosur (Argentina and Brazil) as well as North-South agreements such as the North American Free Trade Agreement (NAFTA). Recently, additional free trade arrangements were successfully concluded between Chile and the United States, and Mexico and

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the European Union. These North-South agreements also reactivated Latin America's old South-South regional integration initiatives, as countries look for ways to deepen their agreements into topics beyond free trade of goods and services.

The process is increasingly dynamic, and today the Latin America and the Caribbean (LAC) region faces new challenges within the Western Hemisphere as well as with extra-regional partners like the European Union. Negotiations to create a hemisphere-wide free trade area are about to enter their last year. Talks for the creation of a free trade area between Central America and the United States are underway, and negotiations between the United States and Colombia could be announced in the near future. The European Union and Chile recently agreed to establish a broad trade accord, while free trade negotiations continue between the European Union and Mercosur.

Recent discussion has concentrated on the relative advantages of North-South versus South-South agreements. This is a relatively new research area and requires additional analysis. The World Bank (2000) carried out a comprehensive study and concluded that a North-South agreement is, in general, better for a developing country for several reasons. These include: a North-South agreement is much more likely to confer dynamic benefits than a South-South one; South-South is more likely to produce income divergence; South-South is prone to trade diversion; and a developing country will be able to better exploit its comparative advantage in a North-South agreement.

A further step is to add empirical analysis to the discussion by assessing the quantitative impact of various North-South and South-South regional integration arrangements involving LAC countries. This has now been done for four trade agreements currently proposed or under negotiation. One is a South-South agreement — the South American Free Trade Area (SAFTA). Two are North-South agreements — for the formation of free trade areas between the United States and the Andean Community, and between the European Union and Mercosur. The fourth one combines North-South and South-South agreements — the proposed Free Trade Area of the Americas (FTAA).

This analysis uses a computer model that covers 12 regions or countries and 15 sectors, with a focus on trade. It can model an entire economy in simplified form, using real data from 1997 as the base year. It takes into account all the complex interdependent connections and interactions that exist in real economies, but does not consider financial or monetary markets. It then compares the economies' initial situation with outcomes produced by specific policy changes in each trade agreement. The policy changes introduced in the model are those concerning *ad valorem* tariffs, export subsidies, and domestic producer support measures. The model used is known as a Computable General Equilibrium model, with added information on trade-linked externalities,

economies of scale in manufacturing industries, and domestic support programmes. (Readers interested in details about the six main features, five assumptions, three extensions, and relative realism of the model for this study may request a note from the authors at their e-mail addresses given at the end of the article.)

TRADE FLOWS AND STRUCTURE OF PROTECTION

The main destination markets for exports from most LAC countries are the United States and the European Union. The Central America and the Caribbean (CAC) region sells almost 50 per cent of its total exports to the United States, 18 per cent to the European Union, and 13 per cent to its intra-regional market. The Andean Community (Bolivia, Colombia, Ecuador, Peru, Venezuela) presents a similar pattern: 44 per cent of total exports go to the United States, 14 per cent to the European Union and 12 per cent to the intra-bloc market. Mercosur (Argentina and Brazil) has greater export reliance on the European Union (23 per cent) than the United States (15 per cent), while the intra-regional market absorbs nearly 20 per cent of the bloc's exports. Canada and Mexico show heavy export dependence on the United States.

The pattern of imports shows similar regional dependence. For each LAC country, the United States and the European Union are the major sources of imports of intermediate inputs and capital goods, and all show a marginal share of LAC countries' imports. Canada and Mexico also show a very high dependence on the United States as an import source. Chile, Argentina and Brazil have the most balanced pattern with relatively similar dependence on the United States, the European Union, and the Southern Cone markets.

An analysis of exports by sector shows an interesting contrast. For all subregional blocs in the region, their intra-regional exports are more oriented toward heavy manufactured goods. This indicates that subregional markets have an important role in enhancing their export of manufactures. On the other hand, primary products or light manufactured goods are emphasized in all LAC countries' exports (except Brazil's) to the United States and the European Union. Brazil's exports across the Western Hemisphere concentrate on heavy manufactures, but on primary and agro-industry exports to the European Union.

To measure the impact of regional integration agreements, we incorporate in the model the three main policy instruments that distort world prices and restrict trade: tariffs, export subsidies and domestic producer support.

Tariff protection. Included as tariff protection are *ad valorem* tariffs, as well as *ad valorem* equivalents of specific and mixed tariffs levied by the European Union, Canada, the United States, and Mexico, and tariff-rate quotas (TRQs) imposed by Canada, the United States, and Mexico.

Most favoured nation tariff protection for each country is estimated in table 1 for the base year 1997. In the Western Hemisphere, agriculture-related products face high protection relative to manufactured goods. Although the United States has relatively low average barriers (3.9 per cent), it maintains fairly high protection on processed foods (16.5 per cent). Mexico has the third highest average most favoured nation (MFN) tariff (12.3 per cent) after the Mercosur countries, but its protection is the most heterogeneous with the highest tariff on meat products (53.6 per cent). CAC and the Andean countries have similar trade protection structures. Argentina and Brazil maintain a similar tariff structure, where, unlike other Western Hemisphere countries, manufactured goods face higher protection than products of agricultural origin. Mercosur is still an incomplete customs union, given that each country's applied MFN tariffs differ considerably in heavy manufactured products, notably in automobiles and parts (10 percentage points difference), and machinery and equipment (4 percentage points difference). Chile has a moderate and uniform protection of 11 per cent across sectors. In the European Union, agriculture is heavily protected under the Common Agricultural Policy. The bloc maintains the highest protection on sensitive products such as grains and meat products (44 per cent each), followed by processed foods (26 per cent).

In addition to most favoured nation tariff protection, we also incorporate in the model 12 regional trade agreements and preferential arrangements in place in the Western Hemisphere. Seven of these are regional trade agreements — NAFTA, the Central America Common Market, the Caribbean Community, the Andean Community, Mercosur, the G-3 (Colombia, Mexico and Venezuela), and the European Union. Three are bilateral agreements — Mercosur-Chile, Canada-Chile and Mexico-Chile. And two of them are US preferential treatments — the Andean Trade Preference Act (ATPA) and the Caribbean Basin Initiative (CBI). The inclusion of these agreements is crucial in evaluating the heterogeneity in market access and in measuring the effects of trade reform across countries and sectors.

Export subsidies. Based on World Trade Organization notifications, the European Union has by far the largest subsidies, spending 15 times more than the entire Western Hemisphere. Processed foods are the largest recipient, receiving 60 per cent of the EU's total export subsidies, followed by meat (26 per cent) and grains (13 per cent). This leads to higher export subsidy rates for these products, measured by export subsidies over exports: 27 per cent on grains, 22 per cent on meat and 6 per cent on processed foods. In the Western Hemisphere, the United States and Mexico subsidy rates are very small; for CAC and the Andean countries, they range from 5 to 8 per cent.

Domestic producer support. As measured by the OECD Producer Support Estimate (PSE) in agriculture, grains are the largest recipient of production sup-

TABLE 1: MOST FAVOURED NATION TARIFF PROTECTION, 1997 (PER CENT)

	Canada	United States	Mexico	CAC[1]	Colombia	Venezuela	RAC[2]	Argentina	Brazil	Chile	European Union
Grains	11.62	2.35	36.73	12.97	12.50	12.32	11.94	8.14	8.66	11.00	44.21
Vegetables, Oilseeds and Soybeans	4.69	7.12	16.18	16.10	13.46	13.42	13.32	10.48	10.48	11.00	12.93
Sugarcane and Other Crops	2.65	1.29	10.88	10.98	9.26	9.65	8.64	8.73	8.73	11.00	6.19
Livestock	13.57	1.65	13.89	12.32	14.58	14.65	13.14	10.16	10.23	11.00	13.29
Mining	0.83	0.32	8.85	4.92	5.23	5.27	5.86	5.41	6.75	11.00	0.11
Meat Products	46.49	4.88	53.53	28.80	20.00	20.00	20.00	14.87	14.87	11.00	43.80
Processed Foods	28.97	16.49	27.14	18.72	18.13	18.19	17.94	16.19	16.39	11.00	26.22
Textiles and Apparel	15.47	9.84	21.36	13.93	18.14	18.14	18.21	20.24	20.05	11.00	7.92
Other Light Manufactures	5.72	4.55	15.23	14.22	13.95	14.36	14.63	16.62	15.98	10.91	2.20
Petroleum and Chemicals	5.23	4.98	9.80	6.50	8.64	9.11	8.75	10.83	11.02	11.00	4.56
Iron and Steel	4.61	3.27	12.75	6.93	10.42	10.91	10.22	16.01	15.36	11.00	2.05
Automobiles and Parts	6.62	3.17	13.87	12.15	13.18	12.83	13.18	16.50	26.35	10.27	4.14
Machinery and Equipment	3.48	2.57	11.49	6.12	9.33	10.01	9.19	14.09	18.16	10.72	2.53
Utilities and Construction	0	0	0	0	0	0	0	0	0	0	0
Trade and Services	0	0	0	0	0	0	0	0	0	0	0
Average	6.44	3.91	12.33	10.59	10.83	11.37	11.46	13.80	15.81	10.77	4.73

Source: FTAA Hemispheric Database, IDB.
[1] CAC is Central America and the Caribbean
[2] RAC is the rest of the Andean Community

Note: Most favoured nation (MFN) tariffs in the model are the simple average of *ad valorem* tariffs plus *ad valorem* equivalents of specific, mixed and tariff-rate quotas (TRQs) in each sector. The European Union MFN estimation does not include TRQs. Sectoral protection rates by country are the simple average of the corresponding tariff lines. For CAC and RAC, protection data is the simple average of the tariff lines among member countries. Tariff rate "average" is weighted by trade flows.

port, accounting for 62 per cent of the PSE in the United States, 73 per cent in Mexico, 55 per cent in the European Union and 30 per cent in Canada. In the Western Hemisphere, meat is the second largest recipient in all countries. Grains also record the highest domestic support rate, measured by PSE over sectoral production. In the European Union, the highest rates are for vegetables, oilseeds and soybean (72 per cent), grains (59 per cent) and meat (25 per cent).

POLICY SIMULATIONS AND RESULTS

We examine four regional trade agreements involving Latin American and Caribbean countries to measure the potential economic impact of the agreements on the countries, and to evaluate LAC's role in the context of North-South and South-South arrangements. While most of the scenarios reflect ongoing negotiations, others are hypothetical integration options. Under each scenario, we consider the complete elimination of three-policy instruments — tariffs, export subsidies, and domestic support — but exclude other barriers and distortions in trade such as non-tariff barriers, sanitary and phytosanitary (SPS) measures, rules of origin and important institutional factors.

Scenario 1 examines the creation of a South American Free Trade Area (SAFTA) encompassing Mercosur, Chile and the Andean Community countries. The decision to form SAFTA was taken in September 2000 by the heads of state of South American countries, but no further steps have been taken since then. The countries would reciprocally eliminate trade barriers (import tariffs, export subsidies, and domestic support), while maintaining their external protection against third partners. This South-South agreement would have high political significance for Mercosur, especially Brazil, as a strategic step to gain negotiating leverage and to create a counterbalance to the United States in the FTAA process.

Scenario 2 simulates a North-South free trade area between the Andean Community and the United States. Andean countries, except for Venezuela, already have limited and conditioned preferential access to the United States through 2006 under the Andean Trade Promotion and Drug Eradication Act (which renewed and modified the Andean Trade Preference Act of 1991 that expired in 2001). The scenario will bilaterally eliminate all barriers between the United States and the five Andean Community countries. Given the increasing possibility of bilateral trade talks between Colombia and the United States — and also between the latter and Peru — this scenario looks unlikely today, but offers economic insights into how the Andean Community would benefit from trade integration with the United States.

Scenario 3, also a North-South arrangement, simulates a free trade area between the European Union and Mercosur, for which, under a recent agreement, negotiations are to conclude by the end of 2004. Beyond the expected economic gains, Mercosur sees the agreement as a key counterbalance to the US trade dominance and hegemony in the FTAA talks. For the European Union, Mercosur has been a traditional stronghold in the Americas, and remains an important partner in restoring lost market share in LAC. The negotiations hinge heavily on agriculture.

Scenario 4 examines the proposed FTAA, whose agreed timetable calls for

finalizing negotiations by January 2005 and entry in force by the end of that year. Although critical issues remain unresolved in many areas, the FTAA process has steadily progressed and has already generated significant positive impacts in a variety of areas. In this scenario, the countries eliminate protection to intra-hemispheric trade, while retaining their protection structures with outside partners.

Simulation results indicate that large-scale trade integration strengthens the linkage between productivity gains and trade expansion, and enhances technical change and spillover among industries throughout the entire economy. Guaranteed access to large markets enables firms to exploit economies of scale, achieve a greater degree of specialization, and promote intra-regional trade in manufactures relative to primary sectors. Trade integration with the European Union promotes more agricultural-oriented specialization in Latin America than does integration with the United States.

Aggregate impact and sectoral results

Table 2 presents the aggregate impact by scenario on real GDP, and export and import growth.

In summary:

- For all member economies, SAFTA generates positive moderate gains. Real GDP grows at a low 0.3 per cent in Colombia and 0.4 per cent in Venezuela, and increases by 1.2 per cent in the rest of the Andean Community members. In Chile, GDP grows at 1.1 per cent, and in Argentina and Brazil around 0.5 per cent. The Andean Community increases total exports by 2.0 per cent, and Mercosur by 1.7 per cent.
- For Andean countries, trade integration with the US is a better option in terms of GDP and export growth. Under both scenarios, the rest of the Andean countries countries benefit more than Colombia and Venezuela.
- For Mercosur, trade integration with the European Union is the best option across the scenarios, bringing the highest GDP growth (4.7 per cent) and the highest total export and import growth of 12.8 and 10 per cent, respectively.
- For the other Western Hemisphere countries, FTAA (scenario 4) is the best option, achieving the highest economic gains and export growth. CAC and the Andean Community increase their real GDP by 2.2 and 2.1 per cent, respectively, and Mercosur by 3.1 per cent. Total exports increase in all regional blocs: in CAC by 8.5 per cent, in Mercosur by 7.9 per cent, and in the Andean Community by 5.6 per cent.

Although there are many factors behind these results, two key elements play a dominant role between countries engaged in an agreement: (i) the base trade links, and (ii) the initial level of protection.

TABLE 2: COMPARATIVE IMPACTS OF THE INTEGRATION SCENARIOS

(PERCENTAGE CHANGE IN REAL GDP, GROSS EXPORTS, AND GROSS IMPORTS)

		Scenario 1	2	3	4
	Base ($ billion)	SAFTA (%)	AC-US FTA (%)	Mercosur -EU FTA (%)	FTAA (%)
REAL GDP					
Canada	630.5	0.00	-0.01	0.04	0.57
United States	7,947.4	0.00	0.15	0.03	0.35
Mexico	381.6	0.00	-0.05	0.03	1.02
NAFTA	**8,959.5**	**0.00**	**0.13**	**0.03**	**0.39**
CAC	**93.3**	**-0.01**	**-0.07**	**0.04**	**2.22**
Colombia	93.6	0.28	0.92	0.05	1.32
Venezuela	84.6	0.37	1.40	0.10	2.08
RAC	91.1	1.21	1.78	0.21	2.98
Andean Community	**269.3**	**0.62**	**1.36**	**0.12**	**2.12**
Argentina	336.5	0.61	0.00	4.20	2.49
Brazil	808.2	0.46	-0.01	4.94	3.39
Mercosur	**1,144.7**	**0.50**	**-0.01**	**4.72**	**3.12**
Chile	76.1	1.14	-0.01	0.11	2.84
European Union	**8,001.2**	**0.00**	**0.00**	**0.61**	**-0.01**
GROSS EXPORTS					
Canada	196.6	-0.01	0.03	0.18	1.42
United States	623.2	-0.01	0.26	0.12	1.92
Mexico	110.1	-0.01	-0.10	0.10	2.00
NAFTA	**929.9**	**-0.01**	**0.17**	**0.13**	**1.83**
CAC	**30.3**	**-0.03**	**-0.12**	**0.23**	**8.48**
Colombia	10.5	1.65	3.04	0.16	4.92
Venezuela	22.8	1.03	2.46	0.24	4.42
RAC	13.1	3.85	4.41	0.56	8.33
Andean Community	**46.4**	**1.97**	**3.14**	**0.31**	**5.64**
Argentina	26.2	2.13	0.00	12.60	6.67
Brazil	52.4	1.49	-0.08	12.93	8.50
Mercosur	**78.6**	**1.71**	**-0.05**	**12.82**	**7.89**
Chile	16.7	3.47	0.00	0.33	7.73
European Union	**1,917.2**	**0.00**	**-0.02**	**1.14**	**-0.07**
GROSS IMPORTS					
Canada	190.4	0.00	-0.01	0.15	1.45
United States	856.2	0.00	0.17	0.12	1.13
Mexico	105.4	-0.01	-0.13	0.09	2.08
NAFTA	**1,151.9**	**0.00**	**0.11**	**0.12**	**1.27**
CAC	**53.2**	**-0.02**	**-0.10**	**0.11**	**5.29**
Colombia	13.9	1.32	3.23	0.13	4.87
Venezuela	14.6	1.67	4.40	0.29	7.44
RAC	15.9	3.43	3.98	0.32	7.48
Andean Community	**44.4**	**2.19**	**3.88**	**0.25**	**6.65**
Argentina	30.7	1.61	0.01	10.05	5.75
Brazil	64.5	0.99	-0.04	9.78	7.13
Mercosur	**95.2**	**1.19**	**-0.02**	**9.87**	**6.69**
Chile	18.1	2.83	0.00	0.24	6.74
European Union	**1,908.3**	**0.00**	**-0.01**	**1.16**	**-0.02**

Note: The impact on trade is measured by changes in trade in goods, excluding trade in services.

Figure 1 presents the impact on exports by macro-sector and destination under the four scenarios.

Scenario 1: SAFTA

The creation of SAFTA increases exports by 7 per cent within South America, while inter-regional trade between the Andean Community and Mercosur, and the Andean Community and Chile expands by more than 20 per cent. The impact on export performance is unevenly distributed: Andean Community countries expand total exports by 3.8 per cent and Chile by 3.5 per cent; while exports grow in Venezuela only 1 per cent. An interesting result is the high intra-industry share of manufactures in new trade flows. Heavy manufactured goods account for nearly half of the increased trade, and light manufactures' share is about one third.

Brazil is the largest exporter in value terms to the SAFTA market. It increases exports of heavy manufactures by 7 per cent to the expanded market, accounting for around half of the new heavy manufactured exports. Automobiles are the leading export (in value terms) and also one of the most booming industries (9.1 per cent increase), followed by iron and steel (7.2 per cent increase). Argentine exports to the SAFTA partners are more concentrated in light manufactures such as processed foods, which grow 12 per cent, and agricultural exports. Chile also expands light manufactured exports to South America by 25 per cent. Regarding the Andean countries, the formation of SAFTA increases manufactured exports, as the countries expand their resource-based exports — mining plus petroleum and chemicals, largely from Colombia and Venezuela — amounting to 30 per cent of the new exports to the intraregional market.

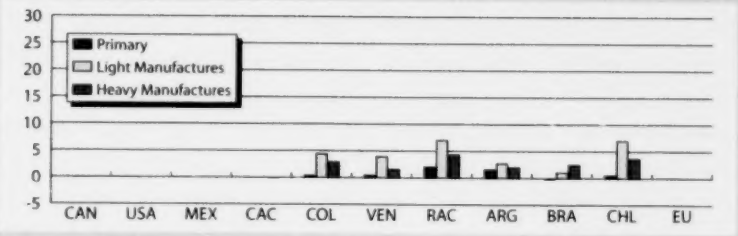
While SAFTA might bring about relatively modest economic gains to its member economies, this trade arrangement represents, as already mentioned, an important strategic option with significant political importance. By consolidating regional integration, South America can significantly raise its international bargaining power in negotiations with the United States (FTAA) and the European Union.

Scenario 2: Free trade agreement between the Andean Community and the United States

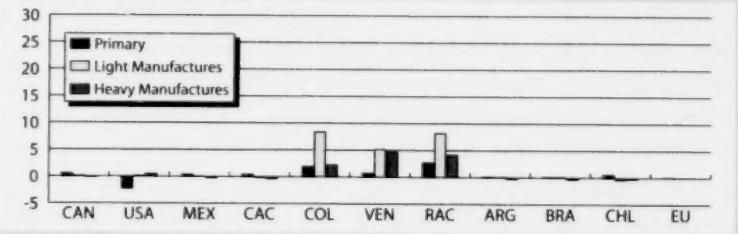
The results of this trade integration agreement reflect two factors: (i) the bloc's trade links, especially export structure, with the United States; and (ii) the existing US preferential arrangement, ATPA. Before liberalization, resource-based products such as mining (oil and gas) as well as petroleum and chemicals dominated the bloc's exports to the United States, accounting for three-quarters of total exports to that market. The United States already offers fairly low barriers on these imports under the ATPA: almost no protection on oil and gas, and modest

FIGURE 1: IMPACT ON TOTAL EXPORTS BY MACRO-SECTOR (PERCENTAGE CHANGE)

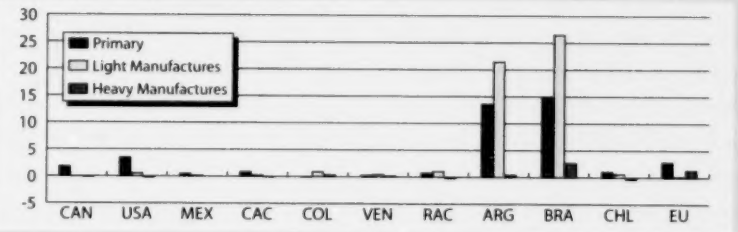
SCENARIO 1: SAFTA



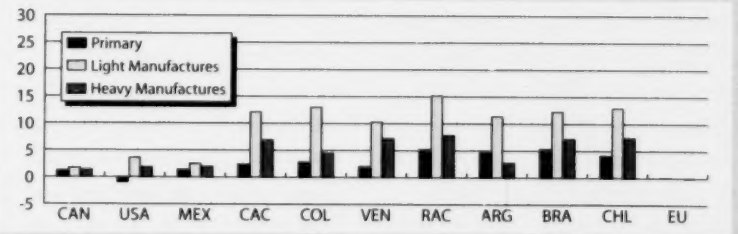
SCENARIO 2: Andean-US FTA



SCENARIO 3: Mercosur-EU FTA



SCENARIO 4: FTAA



protection on petroleum and chemicals (5 per cent on Venezuela and 2.6 per cent on the other Andean members). On the other hand, the export share of light manufactures is only 5 per cent of the group's total exports to the United States.

As a consequence, the impact on export growth is a modest 3.6 per cent. By macro-sector, exports of light manufactures to the northern markets jump by 17 per cent (due to the small base), heavy manufactured exports by 6.6 per cent, and primary exports by 1.4 per cent. In value terms, however, heavy manufactured products, driven by petroleum and chemicals, primarily from Venezuela, account for half of the increased exports to the United States, whereas primary and light manufactured exports account for around a one-quarter share each. Venezuela, the bloc's main exporter, accounts for almost 50 per cent of the increased exports to the United States, and Colombia for 21 per cent. The agreement also activates intra-Andean exports, which grow by 3.5 per cent. In contrast with the composition of exports to the United States, light manufactures account for half of the intra-bloc exports and heavy manufactured goods one third.

The results show signs of trade diversion. Due to the initially high most favoured nation tariff, the Andean countries shift their source of imports away from third countries and in favour of the United States, illustrated by a 14 per cent increase in imports from the United States. Of these new imports from the US, heavy manufactured goods — capital and intermediate goods — represent the majority of products, with machinery and equipment accounting for 40 per cent.

Scenario 3: Mercosur-EU FTA

Trade integration with the European Union is the best option for Mercosur. Economic gains and export growth are the largest for each individual member, as the growth of GDP and exports increases 50 per cent more than the figures from the FTAA initiative (scenario 4).

The bi-regional FTA raises the region's exports to the European Union by 37 per cent. The removal of the EU's high protection in agriculture is a key element leading to Mercosur's expansion of agricultural exports, in which Mercosur has a clear comparative advantage and strong international competitiveness. Agricultural exports constitute 98 per cent of the increased exports to the European Union in Argentina and 93 per cent in Brazil. Meat products and processed foods account for 65 per cent of the increased exports to the EU market.

Due largely to a small base of exports and the EU's high initial protection, the two fast growing sectors are meat products and grains, with growth rates as high as 120 per cent and 420 per cent, respectively. Exports of manufactured goods also increase, but at the relatively moderate pace of 5.4 per cent. In value terms, Brazil's exports of heavy manufactures to the European Union exceed those of Argentina. An important result is that

while Brazil expands intra-bloc exports across sectors, Argentina suffers a decline in exports of machinery and equipment to Brazil, as a result of losing the preferential access and high dependency on the Brazilian market.

Mercosur increases imports from the European Union by 30 per cent. Manufactures are the major imports from the European Union (90 per cent), with high concentration on heavy manufactures, mainly capital, intermediate and consumer durable goods. Machinery and equipment account for half of total imports. Unlike the previous scenarios, this scenario does not show trade diversion effects.

Scenario 4: Free Trade Area of the Americas

Compared with SAFTA, FTAA induces 2.9 times larger export growth for the Andean Community, 4.5 times for Mercosur, and 2.2 times for Chile. Compared with the integration with the United States in scenario 2, the Andean Community further increases its exports by 80 per cent. Due to NAFTA, the export growth in North American countries remains modest.

FTAA increases Latin America's exports to the Western Hemisphere market by 11 per cent, generating a strong export growth of light manufactures in all LAC countries except Mexico. Andean countries, especially Venezuela and to some extent Colombia, further expand resource-based exports (petroleum and chemicals, as well as oil and gas). In Mercosur, processed foods are the fastest growing industries and leading export earners, although Brazil substantially boosts heavy manufactured exports to the entire hemisphere market (7.7 per cent growth). Chile's highest increases are in agricultural exports (vegetables and processed foods), followed by resource-based metal products, with the majority destined to the United States. FTAA brings about promising export growth of CAC to the United States, which has long sought NAFTA-parity treatment. The bloc increases textile and apparel exports, which account for 70 per cent of its exports destined to the United States.

FTAA facilitates strong export growth of manufactured goods in LAC, in sharp contrast with the result of Mercosur integration with the European Union. Interestingly, Latin America absorbs nearly 50 per cent of the increased exports to the FTAA market, and heavy manufactures represent a 50 per cent share of the new exports traded within Latin America. As we move down to the south, the share of intra-LAC trade in total trade increases. For the Andean Community, Mercosur and Chile, this share surpasses 60 per cent for heavy manufactures, and rises over 80 per cent in several manufacturing industries. Thus, the presence of LAC countries raises exports of non-resource-based heavy manufactures for the countries in South America. This is particularly the case with Brazil.

As a result of efficiency gains, LAC is

more competitive in the international market with exports, especially in light manufactures, increasing even to third parties outside the agreement. The impact on imports is similar to the one under integration with the United States. LAC increases imports of capital goods (machinery and equipment), intermediates (petroleum and chemicals) and consumer durable goods (automobiles and parts). The European Union, excluded from the agreement, faces trade diversion and its trade with the hemispheric partners declines.

CONCLUSIONS

Regional trade integration is not simply a matter of maximizing potential economic gains or balancing benefits and costs. It involves national economic strategies that have domestic political ramifications. It is concerned with structural transformation, with particular impact on adjustment of the labour market and survival of weak industries. Despite difficult economic and political situations in some LAC countries, the region has adopted an active integration agenda in the Western Hemisphere and with the European Union that will significantly influence the region's future.

The simulation results for four regional initiatives show that SAFTA, a South-South arrangement, generates modest economic gains for member counties, but its effect might be seen more on the strategic, political economy interests of South American countries. The North-South arrangements evaluated generate considerably heterogeneous impact on Latin American countries. Andean trade integration with the United States is greatly affected by the Andean Community's resource-based economic and trade structures; and Mercosur's gains from trade integration with the European Union accrue from the EU's import-sensitive agricultural sectors and Mercosur's competitiveness in that sector. The FTAA (a 'mixed' North-South/South-South agreement) is the best option for most Latin American countries except for Mercosur, generating sizable economic and trade gains.

The analysis by macro-sector shows that light manufactures are the fastest growing sector for the LAC countries in all scenarios. This is in part driven by the fact that light manufactures, led by agriculture-related products (meat and processed foods), face higher protection than other sectors in both the United States and the European Union. This result shows the LAC region's comparative advantage and competitiveness when facing an agreement with developed countries. For the Andean countries, the FTAA reflects a similar pattern of growth across macro-sectors as does the FTA with the United States: specialization in light manufactures followed by heavy manufactures. Mercosur, a middle-income and semi-industrialized bloc, attains dynamic gains from greater integration, improves efficiency gains, and exploits economies of scale in manufacturing industries. Integration with

hemispheric partners shows that heavy manufactures are the sectors with the highest share of increased exports for Mercosur, while this is the case in resource-based manufactures for the Andean countries.

As for the FTAA, we find an interesting result in evaluating the LAC region's participation. In this agreement, LAC countries absorb nearly half of the region's increased exports to the FTAA market, and heavy manufactured products account for 50 per cent of the new exports traded in Latin America. For the South American partners, the share of Latin America over the FTAA market in their heavy manufactured exports well exceeds 60 per cent and even rises over 80 per cent in several industries. Thus, the presence of Latin America contributes to increased exports of non-resource-based manufactures for South America. This is an important finding given that specialization in manufactured goods is preferable to primary goods, thus highlighting the importance of the intra-LAC market in the Free Trade Area of the Americas.

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THE LONG ROAD AHEAD: Economic Integration in the Gulf States

BY MATTEO LEGRENZI

A long saga of unfulfilled promises of regional cooperation and harmonization has taken place in the 22 years since the charter of the Gulf Cooperation Council was adopted in 1981. However, a 'bright spot' is represented by the civic organizations that have organized themselves on a Gulf-wide basis. And there remains good potential for increased complementarity if current trends toward specialization are pursued. That is the balance sheet drawn up by Matteo Legrenzi, a doctoral candidate at St. Antony's College, Oxford University, and a research fellow at the Asian Pacific Women's Information Network Center.

AS IN OTHER FIELDS, the objectives of the Gulf Cooperation Council (GCC) for economic cooperation and integration differ sharply from the actual joint achievements of its six member states — Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Senior officials admit that the series of unfulfilled promises and declaratory announcements, in this as in other areas, have damaged the credibility of the organization. Crown Prince Abdullah of Saudi Arabia expressed it this way on 30 December 2001:

> *We have not yet set up a unified military force that deters enemies and supports friends. We have not reached a common market, nor formulated a unified political position on political crises…objectivity and frankness require us to declare that all that has been achieved is too little and it reminds us of the bigger part that has yet to be accomplished…We are still moving at a slow pace that does not conform with the modern one.*

The coordination, let alone integration, of member states' economic policies has been meager as measured by a model of economic integration that focuses on five incremental steps, as discussed below. In particular, the saga of attempts to create a customs union demonstrates the tendency of GCC member states to issue declarations in the economic realm that they then find difficult to implement for

historical and political reasons. As recently as 20 December 2002, a ministerial meeting agreed that GCC member states would continue to charge each other customs duties 'for a limited period.'

In the realm of joint development projects, often hailed as the true test of GCC economic integration, the results are not encouraging (Al-Kuwaiz, 1987). Oil is one field in which GCC states can claim a preeminent position on the world stage, but real coordination of oil policies does not come from GCC fora despite the attention they give to oil. A number of factors hamper the process of GCC economic integration. The GCC economies are facing what Gary Sick (1997) calls a "crisis in slow motion" that makes the leaders conscious that something must be done, but fearful of the political repercussions of serious economic reform.

FOSTERING 'ECONOMIC CITIZENSHIP'

There is an important distinction between economic regionalism as a *conscious policy* of GCC states to coordinate and integrate their economic policies, and economic, professional and civic regionalization as the *outcome* of such policies or of 'natural' economic forces. While GCC steps to promote economic integration fall well short of projected aims, a bright spot is represented by the civic organizations that have organized themselves on a Gulf-wide basis. Even more significant, professional organizations, while still constituted on a national basis, meet regularly at the GCC level. The opportunities to do business at the Gulf level have indeed improved since the creation of the GCC.

The aim of creating a regional 'economic citizenship' in accordance with Article 4 of the GCC Charter is one of the few goals that have come close to being fully realized. The visa requirements for GCC citizens were scrapped with effect from 1 March 1983. Ownership rules for companies have been relaxed for GCC citizens well in advance of World Trade Organization requirements even in Saudi Arabia, the most closed of the six economies. The fact that professional organizations closely coordinate and meet on a Gulf basis is partially the result of GCC policies. However, this ignores the genuine enthusiasm of professionals and technocrats throughout the Gulf who often look at the GCC as a tool to nudge their respective national governments in the direction of economic and political liberalization. The GCC is often seen by restive American-educated technocrats as a possible vehicle of innovation in terms of business practices and transparency. This expectation is unrealistic given that GCC bodies do not have supra-national powers and their decision-making procedures reflect those of the six national governments in their opaque and informal nature. This enthusiasm is further testimony that subregional bodies are seen as something 'good' in today's world in spite of their actual achievements.

A further, more daring instance of the regionalization of civic society in the Gulf is the number of non-governmental organizations that were organized on a sub-regional basis even before the establishment of the GCC. A prominent example is the 'Development Forum,' an organization of around 100 influential professionals, bureaucrats and academics from all six GCC countries. These often American-educated technocrats came together in 1979, two years before GCC was created. The group's annual conference proceedings are published as a book. During the first decade, they focused on two major issues affecting their countries of origin — development, and the management of resources. Considering development in the Gulf to be very lopsided and distorted, they started by assessing how to promote a more balanced exploitation of resources and how best to deal with the management of large public projects, according to the Forum's coordinator, Abdulaziz Sultan. Gradually, the annual symposia started addressing more delicate themes, such as gradual economic and political liberalization.

An architect with a doctorate from Harvard University, Abdulaziz Sultan represents a new breed of Gulf technocrats who resent the lack of transparency and the clique-ish nature of Gulf business practices, and who see economic liberalization as a necessary precursor of political liberalization. It is not a coincidence that, in addition to his Forum role, he serves as the leader of the Kuwait National Democratic movement. He is aware that many economic problems can be tackled only at the sub-regional level, but holds that GCC economic integration is hampered by the different levels of democratization reached in the various countries — not one of the reasons that others usually cite. He sees democratic change and harmonization of political systems as key issues not only in political terms, but even to foster economic integration. In effect, the issues of economic and political integration cannot be categorically distinguished. On many occasions, steps on the road to economic integration have been held hostage by political disputes. The fact that professional organizations, economic officials and NGOs now meet on a GCC basis is a good sign. Thus, best practices are spread around the Gulf and there is increased room for business deals to take place across the borders of member states. It is fair to make this point before focusing on the lack of progress in economic integration by GCC member states.

The aim of creating a regional 'economic citizenship' is close to being fully realized in the Gulf states.

MEASURES OF ECONOMIC INTEGRATION

To gauge the state of GCC economic cooperation and integration, it is useful to refer to the classic work on the subject by Bela Belassa (1961), which GCC officials themselves use as a reference. Belassa distinguishes five degrees of economic integration:

1. **Free Trade Area:** suppression of discrimination in the field of commodity movements among member countries. However, as long as tariffs among non-members are not equalized, customs authorities have to distinguish between partner and foreign products according to the shares of value added in the product.

2. **Customs Union:** complete free trade of commodities within the union and a common tariff wall against non-member countries.

3. **Common Market:** customs union and abolishment of restrictions on factor movements and services. However, non-nationals such as foreign workers are excluded from free movement. This is a crucial proviso for the six GCC countries where at least 35 per cent of the population and 65 per cent of the workforce is made up of expatriates. (While figures are contested and opaque, Bahrain and Qatar have the lowest number of expatriates in the workforce, but still well over 60 per cent, and in the UAE the figure is over 90 per cent.)

4. **Economic Union:** common market in which national economic policies are harmonized to remove discrimination due to disparities in these policies. This implies a joint industrial policy.

5. **Complete Economic Integration:** a common market in which economic policies such as monetary, fiscal, social and countercyclical policies are unified and in which a supranational authority is set up whose decisions are binding for the member states.

Belassa's classification is meant to apply to all market economies and follows closely the blueprint for economic integration adopted by GCC. However, two important issues for Gulf states are difficult to locate in Balassa's classification: joint development efforts in infrastructure and manpower, and joint policies vis-à-vis expatriate workers. This point is often underscored by GCC officials. They stress that GCC member states are all more or less trading in very few, very similar lines of production, making free trade agreements less important than for countries with diversified, sustainable economies. GCC states import virtually all their industrial and consumer goods and a great part of their labour from outside the region (Al-Kuwaiz interview, 1998).

However, this argument is contested by many economic analysts. Rieger (1991), looking at ASEAN, stresses how complementarity grows in line with international specialization engendered by trade. Therefore, complementarity should be the objective rather than the precondition of trade liberalization. Once protectionism is reduced, there is certainly scope for broader international exchange.

Given the pre-existing strengths and weaknesses of the six GCC countries we can actually design a hypothetical scenario of the different economic activities in which GCC member states could further specialize by following current trends:

- Bahrain is already the preeminent financial centre in the Gulf. New transparency requirements imposed by the American 'war on terror' are bound to decrease its competitive advantage vis-à-vis financial centres in Europe and America. As recently occurred in Switzerland, the traditional discretion that accompanies financial transactions in Bahrain is bound to come under close scrutiny. However, further GCC economic integration will help maintain Bahrain's edge over rival banking centres. Bahrain could also benefit from more business for its aluminum production plants and shipyards.
- Dubai has so far been the most successful GCC state in diversifying its economy. It could further strengthen its commercial vocation as well as its trade and transshipping business. And it hopes to spread its proactive business agenda to the other emirates.
- Kuwait may be a centre for the refining industry as well a financial centre, particularly now that trade with its neighbour Iraq has been reestablished.
- Saudi Arabia has an important role to play in downstream manufacturing of petroleum products and some basic industries such as cement and chemicals. These potential gains may come after pernicious agricultural subsidies are removed and some results are achieved in the much heralded but very slow process of 'Saudization' of the workforce (Kapiszewski, 2001). Product and process specialization could lead to intra-industry trade (Koppers, 1995).

In general, we can conclude that regional economic integration would certainly benefit GCC states when accompanied by other measures to deregulate their economies.

The importance of economic integration within the life of the GCC is underscored by the placement of both the economic and the political affairs sectors directly below the office of the Secretary General (Dietl, 1991:212). The central importance of economic matters within the life of the organization is invariably mentioned in the final communiqués of the meetings of the Supreme Council of the GCC. The economic sector is divided into six departments: economic and social planning; industry, electricity, desalinization and technology; research; commerce; public works, municipalities and housing; and petrol and gas. Unlike the European Union Commissioners, none of the departments in the GCC Secretariat has supranational powers (Al-Kuwaiz interview, 1998). There is no

mechanism for enforcing the implementation of the various treaties, and all the departments can do is h- -angue member governments about them. This is one of the many reasons why economic integration results have been so uneven.

Both the Charter of the GCC and its first Secretary General stress that unity is the 'final objective' in the economic field, a lofty goal indeed (Bishara, 1983-4). In pursuit of such a goal, a number of instruments have been ratified and various decisions have been taken. By far the most significant agreement, and indeed the cornerstone of all subsequent ecnomic cooperation, is the Unified Economic Agreement (UEA). It was approved in principle on 8 June 1981, less than three weeks after adoption of the GCC Charter, and was then formally ratified by the GCC heads of states at their summit in November 1981. Economic cooperation among Gulf states precedes by many years the adoption of the UEA, and this instrument was meant also to broaden and rationalize the previous efforts at economic cooperation.

The UEA consists of a preamble and seven chapters divided into a total of 28 articles.

1. Trade Exchange (Articles 1-7)
2. Movement of Capital and Citizens and Exercise of Economic Activities (Articles 8-9)
3. Coordination of Development (Articles 10-13)
4. Technical cooperation (Articles 14-17)
5. Transport and Communication (Articles 18-20)
6. Financial and Monetary Cooperation (Articles 21-23)
7. Closing provisions (Articles 24-28)

The UEA is a very ambitious document that sets out clear objectives for the GCC in the economic field. More than 20 years after the agreement was signed, here is a review of the progress achieved in implementing its main provisions.

Free Trade Area

The first three articles prescribe the creation of a free trade area and describe the criteria by which a particular product should be considered of national origin. To qualify as national products under Article 3, at least 40 per cent of their value added must arise from being produced in member states. Also, citizens of the member states must own no less than 51 per cent of the producing plant. These requirements have engendered much controversy and criticism by some business people in the past (Nakhleh, 1986:27). Though a standardized GCC form exists, in practice a GCC committee has to decide that specific products of a specific firm are duty free within the GCC. Obtaining a certificate of national origin became one of the countless non-tariff barriers that plague business life in the Gulf (listed in http://www.ustr.gov/reports/nte/2003/gcc.pdf). Furthermore, some exemptions, allowed under Article 24 of the UEA on a temporary basis, still persist today, and there are some ambigu-

ities regarding the status of handicrafts and art. More important, government purchases and public contracts still favour products of national origin over products from other GCC states, though this is expressly ruled out by the UEA. Given the size of government spending in GCC states, this is a significant issue. Despite all these reservations, the creation of a Free Trade Area beginning in March 1983 is the main achievement of the GCC in the field of economic integration.

Customs Union

As a further step, Article 4 mandated the creation of a uniform tariff range within five years — by 1987 — as a step towards establishing a customs union. This mandate was fulfilled four years ahead of time when, on 1 September 1983, a tariff range of between 4 and 20 per cent was established.

However, after this auspicious start, it proved devilishly difficult to finalize a customs union by agreeing on a single external tariff. Repeated announcements that a customs union was imminent did a lot to tarnish the reputation of the GCC. Diplomats and EU officials came to mistrust the efficacy of the organization in spite of its achievements in other fields. More than twenty years after the agreement, a customs union is still not completed. The entire saga confirms the importance of the lack of enforcement mechanisms on the part of the General Secretariat. This is in stark contrast with the European Commission, which has direct jurisdiction over issues of free trade and competition within the European Union. As far back as 1989, the European Union announced that the achievement of a GCC customs union would be a precondition for a free trade agreement with the EU. Such an agreement would open European markets to the products of the GCC petrochemical industries, by far the biggest industrial sector in the GCC states. The slow pace in forming a customs union was costly for the six member states.

Finally, after years of hollow timetables, the annual GCC summit in December 2001 decided to advance the introduction of the internal customs union by two years. Also a formula was agreed for a Common External Tariff, with a limited number of duty-free items and a 5 per cent duty on the majority of products. The tariff was to go into effect by January 2003, but, in a final twist, its full implementation was blocked yet again two weeks before the deadline.

It has proved devilishly difficult to finalize a customs union by agreeing on a single external tariff.

Historically, the hypothesis of a customs union is particularly troublesome for these states. The relationship with merchants was the mainstay of the regimes of

the sheikhs before the discovery of oil. Customs were their main source of revenue and an important fount of patronage. They feel that abolition of their right to set external tariffs would be not only a major abdication of sovereignty but also a weakening of the link to an extremely important constituency.

One of the main factors behind the delay in establishing a customs union was the disagreement between the UAE, particularly Dubai, and Saudi Arabia on what the tariff level should be on most industrial goods. Saudi Arabia aimed at protecting its highly subsidized infant industries, while Dubai did not want to jeopardize its role as an important commercial and trans-shipping hub. Another major stumbling block was the difficulty of devising a mechanism to apportion tariff revenues among GCC member states.

The difficulty in reaching a customs union has been a thorn in the side of the GCC for a long time and has overshadowed the achievements of the organization in other fields. In Belassa's categories, it is only the second in a five-step sequence leading to full economic integration. Current GCC plans to form a monetary union by 2005 and a single currency throughout the GCC by 2010 appear wildly optimistic in view of the track record of the organization. A monetary union would involve abdicating monetary sovereignty to a GCC central bank. It is true that such a move would involve fewer difficulties than in the case of the European Union. The currencies of the member states are very stable. Five of the GCC states are closely linked to the dollar, while the Kuwaiti Dinar is tied to a basket of world currencies. Capital flows are completely liberalized. However, the creation of a GCC central bank still appears extremely premature in an organization whose Secretariat is still not entrusted with supranational powers and where no pooling of sovereignty has taken place.

Joint industrial projects and other economic initiatives

GCC officials stress the importance of joint development projects in the strategy of economic integration. They often emphasize these activities as 'positive' integration, in contrast with 'negative' integration in the form of reducing customs and trade barriers, which encounters so many difficulties. Joint development projects started in earnest after the founding of the organization. However, in the twenty years since its founding, the clear pattern has been soaring activity on joint projects when oil prices are high, which then abates when oil revenues start to dwindle — the general trend of economic activity in all of the Gulf.

The pre-eminent institution of joint development is the *Gulf Investment Corporation* (GIC), established by the Supreme Council of the GCC Heads of State on 10 November 1982. They decided on an initial generous capitalization of US$2.8 billion, but in later years, when oil revenues fell GCC gov-

ernments began to renege on their commitments and the paid-up capital was only $2.1 billion. However, in its 2002 annual report, the GIC could boast total assets in excess of $5.8 billion and a very respectable return on paid-up capital of 12.1 per cent. GIC shares are owned in equal proportion by GCC states and the corporation is controlled by a board of directors consisting of two representatives from each member state (Al-Fayez, 1984-5).

GIC engages in five types of activity:

1. Loans for industrial, agricultural and fishery activities in the GCC. Its comparative advantage is its ability to provide long-term finance.
2. Technical and economical feasibility studies, with decisions to select or reject projects representing a positive externality to other investors.
3. Investments in selected new projects, either by long term financing of 20 per cent or more of the total investment and exerting significant influence, or by other forms of participation.
4. Investment in existing companies to help them expand and provide them with management and financial expertise.
5. Cooperation with the GCC Secretariat General in organizing conferences, undertaking research, and providing consultant help for the GCC.

GIC acquired the Gulf International Bank in 1991, had full ownership for a while, then reduced it to 72.5 per cent, and finally in 2001 sold that share to the six GCC governments when the board decided to refocus GIC on its core missions.

Even if its missions appear somewhat outdated in an era of privatization and deregulation, GIC has proved to be an efficient organization. When choosing its investments, it has managed to discriminate among projects and resisted political pressure surprisingly well. Of 199 projects that GIC chose for appraisal in its first eight years, less than 10 per cent were finally accepted (Koppers 1995: 160). While not a giant within the huge Gulf capital markets, GIC has performed well and assisted the GCC General Secretariat by carrying out serious, in-depth evaluations. In sum, GIC is probably one of the best managed GCC programme relating to economic integration.

Over 20 years, the clear pattern has been soaring activity on joint projects when oil prices are high, which then abates when oil revenues start to dwindle.

Another important GCC specialized agency is the Gulf Organization for

Industrial Consulting headquartered in Qatar. Founded in 1976, before the GCC, its main mission is to identify, evaluate and promote joint industrial projects in member states. In addition, GOIC conducts a wealth of studies on the state of industries in the GCC, runs a number of training programmes and symposia, publishes periodicals and bulletins, and maintains some useful databases. The problem for GOIC is that, while the quality of its personnel is good and its studies are rigorous and serious, there simply is not much scope for joint industrial projects in the Gulf. Given current cost structures, the number of industrial joint ventures in the Gulf that would be viable without requiring huge subsidies is quite limited.

The same problem has beset another GCC institution, the Industrial Cooperation Committee, whose task is to promote joint industrial projects (Ramazani, 1988: 205). Created in October 1981, it consists of the ministers of industry of the member states. Its main achievement seems to be information exchange and promotion of projects that do not necessarily involve all six GCC countries. Its sessions and many other joint ministerial meetings at the GCC level are part of a constant process of consultation, which foreign observers often discount, but which encourage the spread of best practices and informal policy coordination between member states.

Among the successes of GCC economic integration are the efforts in standardization and metrology. In November 1982, the Supreme Council approved transforming the existing Saudi Arabia Standards Organization into the GCC Specification and Measures Organization (GSMO). Like other GCC organizations, GSMO is governed by a board of directors made up of relevant national ministers with rotating chairmen and reports directly to the Ministerial Council. The GCC Secretary General and Associate Secretary General for Economic Affairs participate in the board but do not have voting rights, again illustrating the lack of supranational powers. By 1998 GSMO had approved about 1,000 unified standards for GCC countries. It also takes part in the EU-GCC cooperation agreement and in 1996 began a Standards Cooperation programme with the European Commission, which includes a European expert resident in Riyadh. It also plans to introduce telecommunications standards.

Oil policies

The six GCC states sit on top of about 46 per cent of the world's proven oil reserves and have a production/reserve ratio of around 90 years. The oil phenomenon has profound impact on the role of the state and economic behavior in the Arab World in general and in the Gulf in particular. It has given rise to a particular social structure, in which the creation of wealth is centred around a small fraction of the society; the rest of society is only engaged in distribution

and use of this wealth. The government becomes the main recipient of this external rent in the economy and plays a central role in distributing oil revenues to the population. Such an economy creates a *rentier* mentality. Reward in the GCC states, be it income or wealth, is not related to work or risk-bearing, but rather to chance or situation (Luciani, 1990).

Article 11 of the UEA states that member states shall endeavor to coordinate their policies on all aspects of the oil industry and adopt a common position vis-à-vis the outside world. The energy committee made up of national oil ministers has met more than twice a year, and oil matters are on the agenda of the Supreme Council. However, four out of six GCC states are members of the Organization of Petroleum Exporting Countries (OPEC) and five out of six, including Bahrain, which has no oil left, are members of the Organization of Arab Petroleum Exporting Countries (OAPEC). Oman follows closely the policies of these two organizations without actually being a member. Given the existence of these two other organizations, GCC does not serve as a forum to coordinate oil policies. Oil policies are so vital to the life of the member states that any pooling of sovereignty in this area is unattainable for the foreseeable future. However, there have been some results in marketing, work-force training and avoiding some duplication of refineries.

OBSTACLES AND PROSPECTS

To understand why GCC achieved less than was envisaged in the Unified Economic Agreement, some general considerations about the political economy and the recent history of the six member states need to be reviewed. Gary Sick (1997) and Kapiszewski (2001) list the economic problems currently facing the GCC states as follows: budgetary uncertainties due to vagaries in the international oil market; dominance of the public sector; unemployment and underemployment; inadequate revenues to finance the very generous welfare states; and lack of transparency in state budgets. The remedies are similarly well rehearsed and quoted in countless reports of the World Bank and International Monetary Fund: reducing government subsidies to public and private sectors; cutting redundant labour in the civil service; rationalizing non-productive spending; and introducing large-scale consumption taxes as well as taxes on income of individuals and companies.

However, as Gary Sick concludes, GCC states face a dilemma. If they maintain the paternalistic statism that served them so well for half a century, they risk a domestic struggle over a dwindling body of resources. If, however, they open up the system economically, let alone politically, they risk setting in motion a set of vigorous new institutions that would almost inevitably challenge their ruling style if not their very legitimacy. Domestic cures for the problems

are well known and prosaic, but also politically unpopular, so there never seemed to be an appropriate moment to take the kind of bold and painful action required. This phenomenon is well illustrated in the very slow pace of 'indigenization' of the work forces in GCC states.

If this is the domestic situation in most GCC states, what has economic integration to offer? As long as important domestic reforms are carried out at a glacial pace, it is difficult to see how economic integration could proceed much further. This is particularly true when difficult political choices have to be made, such as a significant pooling of sovereignty or the granting of supranational authority to GCC bodies.

A recent development is the accession to some GCC bodies of Yemen, the big, poorer neighbour to the south. While this could be seen as a welcome development from the point of view of regional integration, it actually represents a further potential stumbling block on the path of economic integration. Yemen is much poorer and its socioeconomic structure is very different from current GCC members. The prospect of co-opting it in a meaningful process of economic integration is difficult to imagine.

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Regional Integration Experience in East Africa

BY NJUGUNA S. NDUNG'U

Kenya, Tanzania and Uganda have experienced half a century of regional integration efforts, going back to colonial times. Since 1991, they have been building an East African Community that starts with a customs union but covers many other domains — economic, environmental, social and political. Where this cooperation is headed, and recommendations for how it can get there, are discussed by Njuguna S. Ndung'u of the African Economic Research Consortium in Nairobi.

REGIONALISM HAS GAINED momentum in sub-Saharan Africa. Regional groupings provide opportunities for addressing common challenges — improving economic policy, increasing market size and competitiveness, attracting foreign direct investment and pooling resources for investments of mutual benefit (Kasekende and Ng'eno, 2000; Mullei, 2002). By combining fragmented domestic markets, regional cooperation may spur economic growth and development by promoting intra-regional trade and economies of scale. Three East African countries — Kenya, Tanzania and Uganda — have already made significant progress to revive the East African Community (EAC) in the 1990s. It is hoped that this will support industrialization and generate benefits of regional economic integration.

Tracing the history of the EAC since the colonial period helps to identify the problems and constraints that led to its break-up in 1977. A survey of recent attempts to revive EAC over the last decade helps explain why regional integration is again being considered a feasible and viable development strategy and highlights the opportunities, likely challenges and constraints now being faced.

HISTORICAL BACKGROUND

The integration process in East Africa can be traced to the colonial period,

when the colonial government constituted the East African High Commission (table 1). However, it was not until 1967 that the three East African countries formalized the integration process through the establishment of EAC.

Ever since colonial times, Kenya and Uganda have co-coordinated their economic activities and policies. This started with inter-territorial services, such as the Kenya/Uganda railway, the East African Currency Board and the Postal Union. In 1940, a Joint East African Income Tax Board and a Joint Economic Council were established. The East African shilling was set at parity with the British pound and later operated as a peg in the currency board. The external tariff was low and there were no trade restrictions, exchange controls or any regional licensing requirements. In 1948, two institutions were established by a British Council order to provide a legal basis for regional cooperation: the East African High Commission (EAHC), consisting of the Governors of Kenya, Tanzania, Uganda and the East African Central Legislature Assembly. Laws issued by the EAHC were enforceable in the three territories. This made it much easier to establish inter-territorial departments responsible for areas of common interest like transport, communications, customs and industry. The East African Common Services (EACSO) was established at the London conference in 1961.

By 1963, East African Community states had attained their independence, but establishing a political federation proved problematic. The main disagreement centred on fears that Kenya would gain from a federation, to the detriment of

TABLE 1: HISTORY OF COOPERATION BETWEEN KENYA, TANZANIA AND UGANDA

Period	Developments
1947–1961	East African High Commission constituted by Orders-in Council of the British Government
1961–1966	East African Common Services Organization
1967–1977	East African Community incorporating the East African High Commission and the East African Common Services Organization
1977	Collapse of East African Community
1984	East African Community mediation agreement for division of its assets and liabilities

Source: Compiled from EAC (2000)

her smaller neighbours. As a result, the countries moved towards a regional trade agreement instead of a political federation. The Permanent Tripartite Commission for East African Cooperation, known as the East African Community, began in 1967. Its main objectives were to "strengthen and regulate industrial, commercial and other relationships of the partner state in areas such as agriculture, education and manpower, energy and power, industry, tourism, balance of payments, transport and communications, and so on" (EAC Cooperation Treaty, 1967).

The EAC Cooperation Treaty set out three objectives. First, to establish a common external tariff, while allowing deviations for particular items when agreed among the respective Finance Ministers. Second, to allow unrestricted freedom of transit goods between the three countries, with remission of duties levied on transit goods to the country of destination. Third, to control imports from third-party countries when such goods were also produced in East Africa. There was no internal tariff, except for a transfer tax within the region.

Unfortunately, within the first year, the East African Currency Board broke down, leading to the establishment of three separate central banks. This destroyed any hope for a monetary union. In addition, a military government came to power in Uganda in 1971 and challenged the foundation of harmonized policy and rule of law. Tanzania did not recognize the new regime in Kampala and considered its participation in the EAC illegal. Furthermore, the countries reacted differently to the economic shocks of the 1970s and continued to have different economic systems. Finally, the East African Community collapsed when member states failed to pay their dues to the community and Tanzania closed its border with Kenya.

One of the reasons advanced for the collapse of EAC in 1977 was that Kenya was receiving a disproportionate share of the benefits of integration. Various measures were tested to redistribute the gains from the common market, but failed to produce the results Uganda and Tanzania wanted (Kasekende and Ng'eno, 2000). For example, the East African Development Bank, which was to promote industrial development with the states contributing equally to its capital base, was required to ensure that Tanzania and Uganda each got 38.75 per cent of its investments, against 22.5 per cent in Kenya. However, under a risk-adverse clause in its statutes, it could only finance 'viable' projects, most of which were in Kenya, especially during the 1971-1973 period. This greatly limited its role as a redistributive institution.

The absence of coordinated industrial planning in EAC further limited the Bank's effect on redistribution. Under a tax transfer system, industries of less developed members were protected by imposing a tariff on imports from a country with which it had a trade deficit. There were regulations to encourage

industries in Uganda and Tanzania, but location advantages kept pulling investors to Kenya. In the end, the tax transfer system was replaced with mechanisms to distribute common services among member states.

Even now with the revival of EAC, the issue of compensation mechanisms is still unresolved. A recent study cautions that the principle of asymmetry should be applied carefully within EAC (Bheenick et al., 2003). The states' key socio-economic indicators are virtually identical: high dependence on weather-determined agriculture, primary producers and exporters of raw materials, and poor infrastructure. There are no major differences in GDP growth rates, per capita incomes (table 2), debt or disease burden. Moreover, even if a compensation mechanism were to be designed, it may have to keep on changing since losers and winners keep on changing over time.

The formal dissolution of EAC was the culmination of various failures or inadequacies. Some argue that it was never truly integrated. Currency convertibility did not last long. Movements of goods and services were subject to *de facto* tariffs in the form of transfer taxes between countries. The collapse of EAC provides useful lessons: First, political will is key to success of economic integration. Second, compensation mechanisms acceptable to members should be designed. Third, without infrastructure to speed up movements of goods and people and lower costs, full integration will only remain a dream. Fourth, a compatible system of domestic policies and economic management is critical for convergence in key (macroeconomic) prices.

DOMESTIC DEVELOPMENTS SINCE THE LATE 1980S

A key development in East Africa is the almost universal acceptance of the dominance of market forces in resource allocation. Unlike the 'booming' years of 1960s and 1970, the region has performed poorly on basic socio-economic indicators. Compared to 1960s and 1970s, domestic production has stagnated and poverty has increased. Kenya's relatively dominant position has been weakened following years of continuous economic decline, while the other EAC member states continued to achieve relatively high growth rates. However, a notable feature is that as intra-area trade has increased, Kenya has reinforced its dominance as a source of imports for both Tanzania and Uganda, which in turn export only minimal amounts to Kenya. Last but not least, there has been a proliferation of regional cooperation blocs which provide alternative arrangements.

Political will is key to success of economic integration.

TABLE 2: ECONOMIC STRUCTURE OF EAC COUNTRIES (BASIC INDICATORS 1990-2001)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP growth													
Kenya	4.2	1.4	0.8	0.4	2.7	4.4	4.1	2.1	1.6	1.3	-0.2	1.1	1.2
Tanzania	5.4	4.5	0.6	1.2	1.6	3.6	4.5	3.5	3.7	3.5	5.1	5.1	5.8
Uganda	6.5	5.6	3.4	8.3	6.4	11.9	8.6	5.1	4.7	8.1	4.0	4.9	6.3
Real effective exchange rate index (1990 = 100)													
Kenya	-	-	102.5	87.2	113.1	117.8	113.4	105.3	106.9	108.9	111.5	111.8	-
Tanzania	-	-	86.8	94	93.6	97.7	118.3	125.6	135.5	135.5	120.6	121.8	-
Uganda	-	-	49.2	50.4	61	65.9	64.8	66.2	67.7	58.9	60	64.9	-
Inflation rate (%)													
Kenya	14.1	14.4	20.9	46.0	28.8	1.6	10.8	8.3	9.6	-	-	5.8	2.0
Tanzania	-	22.2	23.1	25.3	35	27.7	21.1	16.1	9.1	7.8	6.0	5.2	-
Uganda	29.9	27.7	54.5	5.1	10.6	6.6	5.4	10.4	5.5	-0.2	6.3	4.6	-
Fiscal deficit (inc. grants)% GDP													
Kenya	-5.1	-4.4	-7.0	-7.9	-3.6	-0.6	-1.3	-1.9	-1.2				
Tanzania	-0.5	0.4	0.9	-5.3	-2.0	-3.9	-2.1	2.1	0.2				
Uganda	-4.4	-3.4	-7.3	-3.2	-3.8	-2.9	-1.9	-1.8	-0.6				

Fiscal deficit (% of revenue)	1999/2000	2000/2001	2001/2002	2002/2003
Kenya	-0.5	-2.3	-3.1	-4.4
Tanzania	10.5	7.3	3.0	6.9
Uganda	-	9.3	-	-

Domestic savings to GDP ratio				
Kenya	12.3	11.2	10.1	-
Tanzania	14.3	15.4	16.5	-
Uganda	10.7	10.9	-	

GDP per capita (US dollars)	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Kenya	338	304	285	174	305	273	302	300	385	298	-	350	360
Tanzania	172	184	157	134	160	194	217	252	230	246	-	-	280
Uganda	180	144	175	199	303	308	324	-	310	-	260	250	

Source: IMF (2002); World Bank African Development Indicators, 1998-99, 2003 and Bheenick (2003), World Bank website country data profile, IMF (2002)

Economic structure and economic convergence

Economic performance in sub-Saharan Africa has been disappointing since the early 1980s, and growth was persistently negative until 1994. The picture for East Africa has been slightly different because growth has remained generally positive, although at rates insufficient to reduce poverty (table 2). Only Kenya's growth has been declining over time, reaching the all-time low of a negative rate in 2000.

Most macroeconomic variables have been converging towards common values across the EAC (table 2). For example, the real effective exchange rate index (1990 as the base period) was 102.5 and 86.8 for Kenya and Tanzania respectively. In 2001, the index is very close for Kenya and Tanzania at 111.8 and 121.8 respectively. One interesting feature concerning these countries is that they have moved from low to high inflation in the early 1990s, before returning back to low inflation. Fiscal deficits are all below 1 per cent of GDP and even in surplus for Tanzania. This is surprising because the expectation would have been that Uganda, the most successful reformer, would have shown a stronger fiscal position than Tanzania.

As for gross private investment as a percentage of GDP (table 3), Tanzania and Uganda have the largest shares while Kenya has the lowest in the most recent years. However, Tanzania's percentage has been declining, from 20.72 and 24.17 per cent in 1987 and 1991, to 14.1 per cent in 2000 and 13.1 per cent in 2001. Unlike Tanzania, Uganda has achieved a sustained increase in the share of private investments in GDP, perhaps because Uganda was among the first few African countries to adopt economic reforms aimed at promoting private sector led growth.

Another feature of the three economies is the predominance of agriculture, while manufacturing contributes minimally to GDP: 8 per cent in Tanzania, 9 per cent in Uganda, and 10 per cent for Kenya. The figures for manufactured exports are

TABLE 3: GROSS PRIVATE INVESTMENT RATES 1984-2001 (% OF GDP)

Year	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Kenya	7.43	7.11	7.88	9.05	7.23	7.49	6.75	7.67	6.21	8.89	7.5	7.51	9.65
Tanzania	-	-	-	20.72	13.46	13.51	19.21	24.17	17.8	17.4	18.5	16.2	14.13
Uganda	-	5.33	5.22	5.37	5.24	5.69	6.47	7.76	8.52	8.49	9.15	10.2	11.3

Year	1997	1998	1999	2000	2001
Kenya	8.15	8.03	9.3	8.5	8.1
Tanzania	11.8	10.3	12.3	14.1	13.1
Uganda	11.7	11.0	13.7	13.1	13.3

Source: World Bank: African Economic Indicators, 1996, 1998-99, 2003

equally minimal. Non-traditional exports have recorded sluggish growth.

Trade regimes are far more open now than during the EAC days of the 1970s. However, the supply response has not been as swift and positive as predicted. Reinforcing the capacity to trade thus remains a key policy priority (Bonaglia and Fukasaku, 2001). Intra-EAC trade is relatively limited, and the chances of increasing it are slim because export activities are complementary rather than competitive (Gitu et al., 2003). Furthermore, South Africa has become the largest single trading partner for Kenya and Tanzania, supplying 11.4 per cent and 12.6 per cent of their imports, respectively.

Intra-EAC trade is relatively limited, and the chances of increasing it are slim, because export activities are complementary rather than competitive.

New African regionalism and re-launching EAC

As African countries join regional trading blocs to catch up with global trends, the question is whether regional integration will have a positive impact on the nations involved. Regional integration in the continent has been beset with contradictions stemming from the absence of a clear consensus on the benefits of integration, the lack of political will necessary to make it work, vested interests, and a proliferation of a variety of groupings with multiple membership. In Eastern and Southern Africa alone, there are seven regional cooperation arrangements with economic cooperation in one way or another:

- Common Market for Eastern and Southern Africa (COMESA)
- Southern Africa Development Community (SADC): 12 members including Tanzania
- South African Customs Union (SACU): Botswana, Lesotho, Namibia, South Africa, Swaziland
- EAC (Tanzania is also a member of the Indian Ocean Rims-Association for Regional Cooperation (IOR-ARC)
- Indian Ocean Commission (IOC): Comoros, Madagascar, Mauritius, Seychelles
- Cross Border Initiative: EAC, IOC, Burundi, Malawi, Rwanda, Zambia, Zimbabwe
- Intergovernmental Authority on Development (IGAD): Djibouti, Ethiopia, Kenya, Somalia, Sudan, Uganda

Economic integration has not been very successful in Africa for various reasons: First, the continent is highly dependent on a small number of export commodities, mostly unprocessed agricultural products. Thus, they compete in third

markets rather than complementing each other. Second, multinational corporations use certain countries as an export base for the rest of each subregion, thereby contributing to uneven distribution of costs and benefits of regional trade. Third, there is over-dependence on trade taxes and this makes governments reluctant to open up as required by the integration pacts. Other factors that may undermine the integration process and that are not necessarily limited to Africa include: lack of appropriate compensation mechanisms, uncertainties about the likely impacts to government, producers and consumers, concerns about the damage to non-members, and likely loss of sovereignty and control over domestic policy formulation (Mullei, 2002).

These concerns may partly explain the reluctance to move EAC and other regional groupings in Africa to higher levels of integration. Collier and Gunning (1995) observe that strict commitments, thanks to agreements with external actors such as the EU, may provide the necessary political checks. Appropriate mechanisms could tie the hands of politicians and minimize the effects of policy slippage.

The new East African partnership started in earnest in 1986 with the formation of a tri-partite working group to work out modalities of renewed cooperation.

BOX 1: AREAS OF REGIONAL COOPERATION IN THE EAST AFRICAN COMMUNITY

- Trade
- Human resources, science and technology
- Free movement of people, goods and services
- Monetary and financial (currency convertibility, banking law, capital market)
- Agriculture and food security
- Industry
- Environment and natural resources
- Infrastructure (road, rail, air, maritime, post and telecommunications, energy, meteorology)
- Regional and international relations
- Social and cultural activities
- Politics and law (security, defense, immigration, regional peace, human rights, democracy, legal training, standardization of judgements)
- Private sector development and export promotion
- Health and animal disease control
- Tourism and wildlife management

But there was no progress until 1991, when the heads of state directed their ministers of foreign affairs to devise a programme and appropriate institutional framework for reactivated cooperation. The following year, a tri-partite committee of experts was formed to identify spheres of common economic interest. In November 1993, a Permanent Tripartite Commission for East African Cooperation was established to become the policy-making organ of the grouping. A Ministerial Forum heads the commission, with a subsidiary senior officials organ called the Co-ordination Committee of Officials, and a small secretariat in Arusha. The latter was launched in 1996.

Since the objective is eventually to achieve a political union, the current arrangement provides for regional cooperation in virtually all areas (see box 1). It is hoped that cooperation in these areas will open up investment and trade opportunities for local producers to enjoy economies of scale and in the process lead to general increase in welfare and poverty reduction.

AN ASSESSMENT

Since its re-launch, EAC has set targets in a number of areas of mutual cooperation and is achieving some interesting results. The current integration efforts are being undertaken with a customs union as the starting point. Since the signing of the Treaty establishing EAC in 1999, the main substantive progress made has been in reaching agreement on the process of phasing out internal tariffs, rules of origin and a common external tariff.

Development strategy. The first East African Cooperation Development Strategy 1997-2000 and the second EAC Development Strategy 2001–2005 provide more precise medium-term guidelines for economic and social development. For instance, on macroeconomic management, indicators include real GDP growth rate of 6 per cent, single-digit inflation by the year 2000, national savings rates of 20 per cent of GDP in the medium term, and maintenance of stable, market-determined, exchange rates. Fiscal policy objectives include institutional mechanisms — in particular, pre- and post-budget consultations and tripartite agreements on double taxation — and the reduction of budget deficits to 5 per cent by 1998. Furthermore, countries seek to achieve full currency convertibility. At present, Kenya has completely liberalized its capital account, but Uganda and Tanzania still keep various forms of control.

Customs union. A draft customs union protocol has been finalized and is expected to be ready in legal form for endorsement by heads of state in early 2004. Many issues critical to customs integration have been agreed upon, including:

- Harmonized customs documentation,
- Rules of origin,
- Harmonized commodity description,
- Regulations on safeguards, anti-dumping, subsidies and countervailing measures,

- Regulations on export processing zones and manufacturing under bond,
- Regulations for duty drawback, duty and VAT remission schemes, and refund and remission of duties and taxes,
- Regulations on dispute settlement, and
- Provisions on transit trade and transit facilities.

Tariffs. Some agreements have been reached on eliminating tariffs, non-tariff barriers and non-tariff measures. Member countries have already identified those import goods whose tariffs will immediately be reduced to zero and those that qualify for phased tariff reduction. It has been agreed that, when the customs union protocol comes into force, Kenya should fully liberalize its trade with Uganda and Tanzania. To safeguard the less competitive producers in Uganda and Tanzania from Kenyan exports, member states require that a certain category of Kenya exports to the other members be subjected to a tariff based on the application of the principle of asymmetry. The tariffs applied to selected Kenya exports would finally come to zero in five years (by the year 2009). Tanzania and Uganda plan to reach the required level of zero internal tariffs in phases over a period of six years.

The countries have agreed on a common external tariff (CET) level of 25 per cent and a minimum of 0 per cent, but the sequencing of implementation and exceptions still needs a lot of work. This was not easy given concerns about loss of tariff revenue, the risk of trade deficits, and the removal of protection to infant industries. For Uganda, 25 per cent CET implies protectionism to non-EAC members, since it had already reduced its external tariff to 15 per cent as part of trade policy reform. In the case of Kenya, the 25 per cent CET will imply more openness to international trade compared to the current external tariff of 35 per cent. The countries propose to use a three-band tariff structure with a middle CET of 10 per cent. However, the countries have to agree on a methodology to classify and categorize various imports in each of the three tariff band rates, in addition to negotiating on imports where the CET may not apply.

Regional institutions. EAC already has institutions to deal with and guide various aspects of East African integration. These include: the summit, council of ministers, the secretariat, coordinating committee, sectoral committees, court of justice and legislative assembly. The council of ministers comprises the ministers in charge of regional integration and makes major decisions on integration. The court of justice is supposed to implement the EAC treaty, the secretariat executes all EAC programmes, and the legislative assembly ensures major issues are democratically debated and agreed upon. The coordinating committee, made up of the permanent secretaries responsible for regional cooperation, coordinates the work of sectoral

committees that design and monitor implementation of EAC programmes.

Infrastructure. The countries have identified needed joint investments aimed at overcoming the very poor state of infrastructure in East Africa, which increases transaction costs and thus reduces profitability and productivity of investments. EAC intends to coordinate and harmonize transport and communications policies so as to improve existing links and establish new ones. Results so far have not been very encouraging because of the inefficiency of the region's largest port at Mombasa and the Kenya-Uganda railway line. Other facilities that connect the countries include a road running along the Kampala/Kasese railway and a road network going from Kampala to Rwanda through Kigali and Bujumbura. The 1,254 kilometre Dar-es-Salaam-Kigoma railway makes up the Central Corridor, connecting to Bujumbura via Lake Tanganyika and to Rwanda by road. Considerable effort is underway to improve the primary East-West road from the Kenyan border to Kabale and the highway between Kampala and Entebbe. In all three countries, scheduled power cuts and rationing have been common occurrences. So far, each country has developed its own strategy to secure supplies and imports, but there are plans to invest jointly in energy production and distribution.

Financial system. A Memorandum of Understanding has been signed covering the harmonization of capital market laws and regulations. The respective stock exchanges have agreed on the principles of cross-border listing and are now focusing on developing regional products. An apex regional business organization, the East African Securities Regulatory Authorities has also been formed.

Other initiatives. The East African Travel Document, though still not operational, was introduced in March 1997, but no steps have been taken on free movement of labour within the region. A security committee has been set up to curb the proliferation of small arms in the region. Simultaneous presentation of annual government budgets is being done. A public relations and marketing plan has been developed to create a sense of identity among the citizens of Kenya, Uganda and Tanzania and build trust and goodwill within the partnership.

CONCLUSIONS AND RECOMMENDATIONS

Unlike in the 1960s and 1970s, when ideological differences contributed to derailing the integration process, the EAC states are currently all based on a market economy. EAC provides opportunities that could be harnessed to improve the welfare of people in the region. The three countries could mobilize resources internally and externally and pool them to identify and invest in joint projects for mutual benefit. In addition, with policy harmonization, foreign direct investment may rise as the region becomes more attractive to outside investors. It is also

expected that the regional institutions of EAC, such as the East African Development Bank, will take advantage of a larger market and lead to greater social and economic cooperation. Moreover, the integration will be good for social cohesion and hence promotion of peace in the region. Once the EAC experiment with the customs union succeeds, the countries could move further into more advanced levels of regional integration.

The road to economic integration is naturally not assured, and there are a number of challenges and obstacles on the way. East African integration may fail due to dependency on agricultural exports, small and inefficient industrial bases, vulnerability to fluctuations in world markets, lack of compensation mechanisms, failure to involve all people and lack of information to the general public on opportunities from integration. According to Venables (2000), when countries with these characteristics integrate, income levels tend to diverge. Other fundamental factors that could undermine EAC integration attempts in East Africa are poverty, government debt, and donor dependency.

Perhaps the broadest and most significant challenges are to achieve some degree of macroeconomic convergence, to build and sustain genuine democracy, and to maintain the essential political will for integration. In addition, there are some specific steps that should be taken; some of these aim to avoid certain pitfalls typical of regional integration attempts in general and of earlier East African schemes in particular; others seek to build momentum by controlling or eliminating negative factors, and take advantage of positive factors, that affect the speed, spread and success of integration. The key guideline here is that countries should not just focus on potential benefits, but rather must assess both the benefits and costs of integration (Aryeetey, 1998).

Integration will be good for social cohesion and promotion of peace in the region.

Some of the main recommended steps are as follows:

- EAC member states will have to deal with the challenges of globalization, new membership, declining import tariffs revenue and imbalances that may arise as the integration process intensifies. They must also tackle problems that could arise because of overlapping membership in regional bodies with different rules of origin and lists of exceptions.
- Policy co-ordination is crucial to cushion against the vagaries of the world economy and to build on existing strengths. For example,

countries could benefit by specializing in areas where they enjoy relative comparative advantages — Kenya in the provision of a wide range of tradable services, Tanzania in its vast natural resources, and Uganda in agro-industrial products and food.

- Supply-side constraints such as weak infrastructure, costly transport, insufficient skills and red tape must be addressed. In particular, policies on infrastructure, communication networks, and information technology should be harmonized, and the East African Development Bank should be re-structured and refinanced to play a leading role in financing infrastructure projects.
- To strengthen the integration process, it is important to speed up the harmonization of monetary, fiscal and exchange rate policies, and to achieve currency convertibility, even though it is difficult to achieve.
- Countries must have built-in automaticity in the schedule for liberalization, so that tariff and non-tariff barriers are lowered automatically.
- If one or two member countries are willing to integrate more quickly, they should not be deterred so as to avoid having regionalism dictated by the slowest member. At the same time, acceptable mechanisms for compensating losers are necessary.
- There should be no restrictions on factor mobility and, in fact, greater labour mobility should be promoted in the region.
- To ensure that efficiency gains accompany economic integration, members should establish a common policy towards foreign direct investment to encourage cross-border joint production.
- Finally, resources will have to be devoted to public awareness of the opportunities arising from EAC, since the success of the process ultimately depends on the involvement and support of the people of East Africa.

Countries should not just focus on potential benefits, but rather must assess both the benefits and costs of integration.

ANNEX: MAJOR DEVELOPMENTS AFTER RELAUNCH OF EAC

Period	Event/Developments
November 30, 1993	· First Heads of State Summit
1994	· Established Secretariat of PTC
1996	· Established EAC Secretariat in Arusha · Agreed to establish East African Business Council · First East African Cooperation Development Strategy 1997-2000
1997	· Signed financing agreement for East African Digital Transmission Telecommunications with the East African Development Bank and European Investment Bank
1998	· Signed Memorandum of Understanding on defense cooperation. · Conference on East African Road Network, Arusha · Established EAC Defence Liaison Unit, Arusha · First East African Ministerial meeting on Lake Victoria hyacinth
1999	· Heads of State Third and Fourth Summits, Arusha · EAC Memorandum of Understanding on foreign policy coordination, Arusha · First Ministerial seminar to discuss draft EAC Treaty, Arusha · First EAC media workshop, Arusha · 13th extraordinary meeting on plans to establish EAC held by Permanent Tripartite Commission · Second Ministerial seminar on control of water hyacinth · Signing of Treaty establishing EAC by Heads of State during the Fourth Summit, Arusha
2000	· EAC Treaty enters into force 7 July 2000 · 15th meeting of Permanent Tripartite Commission approves revitalization of Inter-University Council for East Africa, Arusha
2001	· First and Second EAC Council of Ministers, Nairobi and Arusha · Appointment of Registrar, East African Court of Justice, and Clerk, East African Legislative Assembly · Launch of Lake Victoria Development Unit
April 24, 2001	· Second Summit of Heads of State, Arusha · Second EAC Development Strategy: 2001-2005 · Partnership Agreement on promotion of sustainable development in Lake Victoria Basin · Appointment of new secretary general

ANNEX: *continued*

Period	Event/Developments
July 12-13, 2001	· Leading scientists and researchers from EAC members recommend formation of East African Council for Science and Technology
August 2-3, 2001	· Inter-Parliamentary Committee for East Africa recommends use of East African passport beyond East Africa · EAC Council of Ministers, Arusha · Signed rules for admission of new members, control of drug traffic, and standardization, quality assurance, metrology and testing · First Summit of EAC · Formal launch of EAC, Arusha, January 15 · Second summit of Heads of State · Inauguration of East African Assembly and Court of Appeal
April 10-11 2003	· Meeting of Permanent Secretaries responsible for trade, industry, finance and regional integration.
June 20 2003	· Second extraordinary Heads of State Summit, Nairobi directs finalization of draft protocol to be signed November 2003
September 29–October 02, 2003	· EAC High Level Task Force on 1) possible transitional fund for any imbalances arising from integration, and 2) legal, institutional and administrative structure of EAC customs union. · Meeting of Trade, Communication and Investment Committee of East African Legislative Assembly on standardization, testing, quality and operationalization of EAC customs union protocol

Source: compiled from (EAC 2001) EACNEWS Newsletter of the Secretariat of the East African Community Issue 7 August 2001; EAC website; EAC (2000)

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Brazil's Response to AIDS

A MODEL FOR THE SOUTH

BY PASCUAL ORTELLS

AIDS is the first epidemic of the age of globalization, and responding to the AIDS crisis constitutes a major challenge for all societies. In Latin America, Brazil stands as both a model and an inspiration. What are the pillars of the Brazilian AIDS model? How did the model evolve and what are the challenges it faces? Can it be replicated in other poor countries facing growing AIDS crises? These questions are addressed by Pascual Ortells, a sociologist with Fundacion Nimehuatzin, a Nicaraguan organization that works on the AIDS issue, and editor of the magazine DeSida.

THE RIGHT TO TREATMENT

The 14th International AIDS Conference (Barcelona, July 2002), confirmed two basic concepts. First, the cure for AIDS is still far off. Second, the illness can be effectively treated.

The first antiretroviral drug, zidovudine (AZT), produced in 1985 by Wellcome under the commercial name of Retrovir, was for years the only drug used to control the HIV infection. Current research and practice has shown that one AIDS drug is not enough to control the reproduction of HIV. A combination of two, three or even four antiretroviral drugs is required — the famous 'cocktails.' In medical terms, the therapy is called Highly Active Antiretroviral Therapy. It was introduced in 1998 as the most effective way to reduce the virus's presence to undetectable levels, thus allowing people who live with the infection to enjoy a very acceptable quality of life.

Some 15,000 scientists, government officials, industry executives and activists at the Barcelona conference agreed that

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access to the antiretroviral treatment has become the major policy issue in combating AIDS. In 2001, the 57th session of the United Nations Commission on Human Rights issued Resolution 33/2001 declaring that access to drugs to treat AIDS is a human right.

Currently, only 4 per cent of the 36 million people living with the HIV infection around the world receive antiretroviral drugs. Nearly half the people in poor countries who receive this therapy are Brazilian. This is the main reason — although not the only one — that Brazil stands out as a country with efficient, compassionate public health policies in response to AIDS. Other countries of the South with exemplary policies include Thailand in Asia and Uganda in Africa. These three countries are among the few that have managed to halt the spread of HIV infection among their populations and have implemented treatment and care programmes for people living with the infection.

in Brazil is roughly $1,000 per person per year, a tenth of the therapy's cost in developed countries.

The Brazilian model demonstrates that universal treatment of people affected by HIV is possible. The Brazilian government produces eight of the 15 drugs used in antiretroviral therapy as generics, and buys the other seven from outside labs at below-market prices, thanks to agreements with the manufacturers. The governmental laboratory, FAR-Manguinhos, has produced low-cost generic drugs for many years, including those most frequently used in treating malaria, tuberculosis, leprosy, leishmaniasis or mountain leprosy, and high blood pressure. When the need arose, Brazil began to produce generic antiretroviral drugs against AIDS within the framework of government policy. Production began before 1997, when the country approved a patent protection law.

Although the government programme of universal access to AIDS treatment does not cover 100 per cent of the demand,

Currently, only 4 per cent of the 36 million people living with the HIV infection around the world receive antiretroviral drugs.

The Joint United Nations Programme on HIV/AIDS (UNAIDS) has calculated that 600,000 people, including men and women of all ages, live with HIV in Brazil. Of these, 116,000 need antiretroviral therapy and receive it free of charge through the public health system. The cost of antiretroviral therapy

the results of Brazil's bold policy are readily apparent. Since 1996, the mortality rate due to AIDS has dropped 50 per cent, while AIDS-related hospitalizations in the public health system are down by 80 per cent. With each passing year, the government is spending less money on AIDS-related treatments, despite the fact that

15,000 new patients are incorporated into the public health system each year.

Through participatory public education programmes, the country has also had significant success in prevention. Brazil's HIV infection rate during the epidemic's early years in the 1980s was similar to that of South Africa. Currently, the rate among adults in Brazil is 0.6 per cent, while in South Africa it has now reached 25 per cent.

Under Brazil's bold policy, since 1996 the mortality rate due to AIDS has dropped 50 per cent and AIDS-related hospitalizations in the public health system are down by 80 per cent.

Another indicator of the success of the model is people's adherence to treatment. Following the prescribed treatment is both vitally important and easily forgotten; people are prone to stop treatment for medical problems as soon as they see the first sign of improvement. But in the case of antiretroviral therapies, a failure to follow the regime can be fatal, causing the virus level in the blood to increase drastically. Since these therapies require people to take several pills a day for life, adherence is often the Achilles' heel for models seeking successful treatment.

In Brazil the adherence rate is about 60-70 per cent and over the years has been roughly equal to rates in the United States and France. Brazil has thus dispelled the myth that poor countries are unable to establish, much less maintain, good public health policies. Brazilian AIDS activist Veriano Terto notes that the alliance between the Brazilian government and associations of people living with HIV accounts for the high rate of adherence. "We are increasingly involving HIV-positive people as part of the solution to the AIDS crisis as a social phenomenon. This represents a way of viewing adherence not merely as an individual question, but as a political commitment. People know that taking their medication correctly is not only going to benefit them individually, it will also benefit the whole collective of people around them."

A TRADITION OF PUBLIC HEALTH, PLUS GRASSROOTS ACTION

Brazil has a longstanding tradition of commitment to public health. Despite the International Monetary Fund's structural adjustment plans to downsize that commitment, since the 1980s Brazilians have struggled actively to defend their health system and have largely succeeded. Brazil's constitution establishes the right to life and health as a collective right and a state responsibility.

Terto notes: "The fact that a public health model existed even before our

struggle began was very important in our getting access to treatment. Our health system is based on universality, equity and a holistic approach. AIDS cannot be addressed through prevention alone. You need a comprehensive approach, including both prevention and treatment."

The country's solid public health history strengthened the Brazilian government's decision to produce generic antiretroviral drugs, despite opposition from multinational pharmaceutical companies. Roberto Paulo Teixeira, coordinator of Brazil's AIDS programme, views the Brazilian model as "the enactment of the universal principles of the right to health and to life."

Terto currently coordinates one of the organizations responsible for bringing about the country's AIDS policy — the Brazilian Interdisciplinary AIDS Association (ABIA). This group pioneered new responses to AIDS that focus on mobilizing people by informing the public, developing public policies and educating people living with HIV about their rights. ABIA was also the first NGO whose president – Herbert de Souza or 'Betinho' — was openly HIV-positive: Through his writings and actions, Betinho transformed the vision of AIDS. In 1992 he wrote, "AIDS is not mortal. We are all mortal."

Activists point out that the key to the success of Brazil's national AIDS programme is its partnership with social movements. While the model would have been impossible without the government's unconditional commitment, the government acted in response to the mobilization of broad sectors of Brazilian society. From the late 1980s through the 1990s, scores of citizens' organizations waged a tough battle with the state over access to antiretroviral therapy through the public health system, arguing that it should be provided on a par with drugs for other serious illnesses. For two consecutive years, organized anti-AIDS groups took to the streets demanding that the Health Ministry devote more resources to drugs and other medical supplies including, but not restricted to, AIDS treatment. Before that, the battle had been waged in the courts to defend the right to treatment. In most cases, the courts found in favour of people with HIV who were suing for their rights.

In 1996, in response to the pressure exerted by social movements, the Brazilian government decided to make generic versions of anti-AIDS drugs available in the country. The decision aroused the ire of the United States government, which denounced Brazil to the World Trade Organization for violating the Trade-Related Intellectual Property Rights agreement. Finally, the pressure of international public opinion and the powerful determination of Brazilian NGOs forced Washington to drop its case.

Since then, social movements have exercised constant vigilance to assure continued accessible and quality health care. On two occasions, Brazil's Health Ministry warned that a budget shortfall would prevent it from providing anti-AIDS drugs

and other medicines. On both occasions, NGO pressure forced the Treasury to come up with the money. The joint effort of NGOs and grassroots organizations forms the basis of the public policy. Working in the field, the NGOs provide prevention and assistance programmes to the most vulnerable social sectors. Brazil's civil society also supports and legitimates the government's proposals in the international arena, where the pharmaceutical industries, the US government, and the European Union call the shots.

PATENTS AGAINST PATIENTS: A FIGHT FOR LIFE

In early 2001, Brazil launched a campaign in the United States to argue that "local production of many of the drugs used in the fight against AIDS does not represent a declaration of war against the pharmaceutical industry. It is simply a way to fight for life." Although the Brazilian AIDS programme respects national law and international patent agreements, the global pharmaceutical industry opposes the Brazilian initiative. After several years of activism in many international forums, however, Brazil has won victories that legitimate its production of generic antiretroviral drugs.

In an email letter sent out in May 2002, Cristina Pimenta and Veriano Terto wrote: "The excessive profits of pharmaceutical companies, the neo-liberal policies that privatize public health, the unjust intellectual property laws imposed over and above public and community interests, and the failure of many of our rulers to address social inequalities mark the history of developing countries. All of these factors are killing people who live with HIV in Latin America and the world."

Pimenta and Terto propose examining how developed countries have dealt with the question of intellectual property rights in times of crisis. For example, in response to the shortage of the antibiotic Cipro in the United States during the disproportionate demand created by the post-9/11 anthrax letters, the US government decided to produce a generic version of the drug without paying the patent rights. The situation was clear: without treatment, 100 per cent of patients affected by inhalation of anthrax die; with early treatment, some survive. Penicillin was not effective against the strain of anthrax encountered, leaving Cipro as the only effective drug. Faced with this scenario, the government acted.

When the South African government indicated the desperate need to import or produce generic drugs for antiretroviral therapy, pharmaceutical interests exercised tremendous pressure to prevent it from doing so. In the end, the transnational pharmaceutical companies dropped their suit against South Africa. Alejandro Teitelbaun, the American Association of Jurists' permanent representative to the United Nations organizations in Geneva, described it as a 'tactical retreat,' since Africa represents only 1.3 per cent of sales in the global drug market.

During the AIDS conference in

Factors that are killing people who live with HIV are excessive profits of pharmaceutical companies, neoliberal policies that privatize public health, unjust intellectual property laws that override public interests, and the failure of many countries to address social inequalities.

Barcelona, some pharmaceutical industry executives again accused the Brazilian government of 'piracy' for its policy of producing antiretrovirals, but they did so in private. No one dared publicly criticize the plan announced by the director of the Brazilian AIDS programme to help developing countries use and eventually produce generic antiretroviral drugs. According to this plan, Brazil will provide antiretroviral drugs to ten different projects presented by poor countries at a cost of $1 million a year. It will also provide assistance and medical training in the use of these drugs, as well as training and technology for their future production. The Brazilian Fund approved by the country's Health Ministry will provide antiretroviral treatment to some 1,000 people.

Jeff Sturchio, an executive with the transnational pharmaceutical company Merck, said, "Expansion of access to anti-AIDS drugs is a complex problem, and various approaches will be necessary. Generics will have to play an important role." Other pharmaceutical giants, however, do not share Merck's flexible policy. GlaxoSmithKline, Bristol-Myers Squibb, Roche Holding and Abbott Labs all have enormous investments in AIDS research.

LESSONS FROM BRAZIL'S MODEL

One of the most important lessons from Brazil is its defense of human rights as a paradigm of health. Veriano Terto maintains, "We have to develop — or defend, in the case of countries that already have it — health systems based on equity, universality and a holistic approach." Under the principle of equity, Brazilian citizens with HIV have the right to treatment, just like those with tuberculosis. The principle of universality means that all Brazilian citizens receive health services for free, including people with HIV, people who have an HIV-related opportunistic disease, and people already in the AIDS stage. A holistic approach means that health care must address all aspects of the human being.

Terto adds: "AIDS is the result of a crisis, an economic and social crisis that has produced the conditions that allowed this epidemic to appear. So dealing with it also means dealing to some extent with the crisis that produced it. One of the important lessons we can draw from Brazil's experience is that if civil society participates, we can make good progress against the epidemic. If we want a health policy, we have to establish it with citizen participation."

Another lesson relates to the need for solidarity. In ABIA's case, the belief in solidarity took root with the organization's founders, Betinho and Herbert Daniel, who viewed solidarity as a political strategy with concrete results. "Solidarity is the capacity to put yourself in the place of another person and feel that the other person's problem is also your problem and your responsibility. It humanizes us," said Daniel.

Daniel participated in the armed resistance against the military dictatorship in Brazil from 1960 to 1970. After seven years of political exile, he returned to his country after the 1979 amnesty and, as a writer and political activist, fought for the liberation and rights of sexual minorities. He was president of the Grupo pela VIDDA (Pela Valorizaçao, Integraçao e Dignidade de Doente de AIDS) — the Group for Life, for the Appreciation, Integration, and Dignity of People with AIDS — and vice-president of ABIA. He died as a result of AIDS in March 1992 at the age of 45. Betinho was known throughout Brazil for leading a massive grassroots Campaign Against Hunger every year. He died in 1997, after nearly two decades of living with and fighting AIDS, showing an extraordinary energy that belied his 100 pounds.

The relationship between Brazil's Catholic Church, the government and grassroots movements also provides an interesting lesson for the rest of Latin America. The Brazilian Bishops Conference has a national commission responsible for pastoral work in the area of AIDS and sexually transmitted diseases. Conflicts exist between activists and the Catholic Church: the Church has problems with promoting condoms in prevention work and would limit the role of the media. And many activists severely criticize the Catholic Church's official position on homosexuality and sexual and reproductive rights.

Despite these differences, there is an atmosphere of mutual respect in Brazil, as groups do their work without attacking the positions of others. Many in the Brazilian Catholic Church are involved in humanitarian aid as well as efforts to prevent stigmatization and discrimination because of AIDS. The country has 40 Catholic NGOs providing various AIDS-related services. The Brazilian Cardinal Paulo Evaristo Arns is an important figure in this work, not only in Brazil's Catholic Church, but also nationally and internationally.

Neither the Brazilian model nor its social partnership is perfect, and the country still has a long way to go. ABIA's coordinators lament the fact that shortages in Brazil's public health system make it hard to provide correct followup to people undergoing antiretroviral treatment. Brazil does not have enough lab kits for either the HIV antibody tests used to diagnose infection or the exams used to monitor HIV. There are problems with exams that monitor the virus level and the lymphocyte or CD4 cell count. Opportunistic infections are often not adequately treated,

and there are serious obstacles to providing adequate care for other diseases and improving prevention work.

Moreover, although antiretroviral therapy is the best that science has done thus far against HIV infections, it is not a cure. The virus remains in the organism. Its level in the blood increases when the therapy is interrupted or when, for little-studied and less-understood reasons, one of the cocktails fails, and two or three of the drugs have to be replaced by another, completely different combination. Antiretroviral drugs are a global experiment, and little has been said about their secondary effects, some identified and others still less known.

In spite of these drawbacks, Terto defends the treatment model in Brazil: "The numbers show the mortality rate has fallen 50 per cent, and people have achieved a better quality of life. The drop in the mortality rate in a poor country, with inadequate basic care and so many problems in the health care system, is surprising. This means that the drugs are so effective that they may even outweigh problems like inadequate services, poor doctor care, problems with antibiotics and several other structural problems."

ANTIRETROVIRAL DRUGS IN CENTRAL AMERICA

Brazil's success in providing accessible treatment contrasts sharply with the situation elsewhere in Central America, where only a small percentage of those who need antiretroviral treatments receive them. Access to treatment was the principle demand at two Central American AIDS conferences, in San Pedro Sula, Honduras, in 1999, and in Guatemala City in 2001.

Costa Rica. This is the only Central American country where all people who need antiretroviral therapy, including foreign residents, receive it. The Costa Rican Supreme Court issued a decision in 1997 obliging the Social Security Institute to provide antiretroviral drugs, based on the argument that economic interests cannot stand above the right to life and health.

Panama. The government has ostensibly offered full coverage to people who need antiretroviral therapy. But so far only those covered by social security receive the drugs, and then only as the result of an intense campaign in 1999 led by Orlando Quintero, director of PROBIDSIDA. The policy of ensuring universal access to antiretroviral drugs is making very slow progress due to the country's bureaucracy and infrastructure problems, according to Norma Garcia de Paredes of the International Human Rights and Health Institute.

El Salvador. Since 1999, people living with HIV/AIDS in El Salvador have demanded an AIDS law based on a bill they submitted. In 2000, the Salvadoran Social Security Institute began to provide antiretroviral therapy to some people with HIV who are covered by social security. People who are not covered have

repeatedly demanded that the government provide the treatments free of charge. In a major step backward, the Salvadoran Congress approved a law last year allowing employers to demand an HIV test from prospective employees.

Guatemala. A group of people infected with HIV sued the Guatemalan government in May 2002 demanding dignified treatment in hospitals and access to therapy, and reached an agreement with the President.

Honduras. With support from the UNAIDS programme, the Honduran government convinced several pharmaceutical companies to reduce the cost of antiretroviral therapies by as much as 85 per cent, cutting them to $1,300 per person per year. Last year, the Honduran Congress approved $190 million in emergency spending to buy antiretroviral drugs, but bureaucratic snags have stalled the purchase.

Responding to the tide of public opinion supporting the Honduran organization of people living with HIV, Honduran Health Minister Elias Lizardo announced in May 2002 that 260 people would be given antiretroviral therapy beginning in June and that the government had requested $27 million for AIDS alone, including $8 million to buy antiretroviral drugs. This represented two thirds of the $41 million that the Honduran government requested from the Global Fund to Fight AIDS, Tuberculosis, and Malaria. Lizardo made these announcements in the city of Tela, speaking to over a hundred people living with HIV at their third national conference. The previous day, hundreds of activists and people affected by the epidemic had demonstrated in the streets of Tela to demand medical attention, nondiscriminatory treatment, drugs for opportunistic infections and access to antiretroviral therapy.

Nicaragua. The Nicaraguan health minister made a commitment in June 2001 to put into practice the agreements reached at the United Nations Special Session on HIV/AIDS. The declaration proposes to "make every effort to progressively and sustainably provide the highest attainable standard of treatment for HIV/AIDS, including prevention and treatment of opportunistic infections and effective, careful and monitored use of quality-controlled antiretroviral therapy to improve adh rence and effectiveness and reduce the risk of developing resistance." This commitment reaffirmed Article 46 of the Constitution and Articles 1, 3 and 19-30 of Law 238, the Law to Promote, Protect and Defend Human Rights against AIDS, which specifically establishes the right of all Nicaraguans to decent treatment and care, with no discrimination based on gender, ethnic group, social condition or HIV status. The Nicaraguan government has requested $34 million from UNAIDS to meet the objectives of its National Strategic Plan to Prevent and Control STDs and HIV/AIDS over a five-year period.

But so far, Nicaragua's commitment exists only on paper. Very few people in

Nicaragua receive antiretroviral treatment, and then only thanks to the support of their families or other people acting in solidarity. Social security does not cover treatment for HIV infections or AIDS. Even worse, some insurance companies have done HIV tests without permission and, on finding a positive result, have turned people away, refusing to serve them and thus violating their human rights and Article 5 of Law 238. Another sign of the critical situation in Nicaragua's public health system is the lack of drugs, which tends to increase their price. For example, one tablet of fluconazole by Pfizer costs nearly $14.40, while in Guatemala, Doctors Without Borders obtain it at $0.28. This drug is not an antiretroviral but is indispensable in treating meningitis caused by criptococcus, a fairly common opportunistic infection. The price differentials between generic and brand name products are considerable for all of the antiretroviral drugs. For example, Costa Rica buys generic AZT at $0.17 a tablet, while Panama buys a patented AZT for over $2 a tablet. Costa Rica buys D4T at $0.38 a tablet, while the same product sold under a brand name can run from $3 to $7 a tablet in other countries.

The cost of antiretroviral treatment also varies significantly within each Central American country. The cheapest therapy in Guatemala is one using three generic antiretroviral drugs distributed by Doctors Without Borders at an annual cost of $788 per person. The Guatemalan government spends around $5,000 per person per year for a similar combination of brand-name antiretroviral drugs, benefiting only a small group of people selected by lottery. Another combination of three different brand-name antiretroviral drugs costs the Guatemalan government even more: $17,297 per person per year. It is important to note that the kind of treatment varies according to medical criteria, since each case is different. The price of antiretroviral therapies in Costa Rica ranges from $2,469 to $6,050 per person per year, according to a price chart provided by Richard Stern, who has been following access to treatment in Central America very closely over the past six years.

SPREADING THE MODEL IN LATIN AMERICA

Obviously, the responsibility for providing antiretroviral treatments to all Latin Americans who need it cannot fall on the shoulders of a single country. Nor does it make sense to assume that all countries in Latin America can follow Brazil's model of national drug production. The technical difficulties in producing this family of drugs makes national production impossible in countries with small populations and scarce resources, like those in Central America and the Caribbean, except for Cuba. National production is too expensive to be competitive in those countries, as has already been proven in the Dominican Republic and Costa Rica.

The Brazilian government's investment makes it possible to respond to growing national demand but does not yet allow for export. Experts calculate that Brazil could increase its production of antiretroviral drugs by some 50,000 additional treatments. But this production volume would not substantially address the need for these drugs in Latin America. It would only serve to continue covering the country's own internal demand, as nearly 20,000 people begin antiretroviral treatment in Brazil each year.

One possible solution would be technology transfer to encourage the production of antiretroviral drugs in countries that already have sufficient technical and economic means, like Mexico, Colombia and Venezuela. Another is the sale of antiretroviral drugs to countries that cannot produce them, at least until they begin their own production. These may be workable solutions, since most Latin American countries have no intellectual property rights impediments related to the most commonly used antiretroviral drugs.

The Brazilian experience also shows that success breeds success. The country's successful response to the AIDS crisis has given Brazil special clout in international forums and the ability to do very effective lobbying on global policies. For example, the country played a leading role in creating the UN-backed Global Fund to Fight AIDS, Tuberculosis, and Malaria. UNAIDS has recognized Brazil's influence in global and regional policies and its pioneering treatment with generic drugs as important factors in the increased global access to treatment that has occurred in recent years. The new paradigm adopted during the UN General Assembly's Special Session on HIV/AIDS, which includes an integrated prevention and treatment focus, was based on the Brazilian experience. Brazil's effective lobbying with the international community has played a pivotal role in the following series of declarations and actions:

- The approval of Resolution 33/2001 by the United Nations Commission on Human Rights during its 57th session, establishing access to AIDS drugs as a basic human right.
- The approval of Brazil's May 2001 proposal to the World Health Organization on the need to have drugs at accessible prices available to all people living with HIV.
- The commitment signed at the UN General Assembly Special Session on HIV/AIDS in June 2001, which reiterates the need for a holistic approach including prevention, care, treatment and the protection of human rights.
- The establishment of the Global Fund to Fight AIDS, Tuberculosis, and Malaria, which guarantees equal participation in resource administration to rich and poor countries and thus constitutes a unique case among international funds. The Global Fund will also

finance projects that include distribution of antiretroviral drugs.

- The declaration of the World Trade Organization's Fourth Inter-Ministerial Conference, held in Doha, Qatar, in November 2001. This declaration, promoted by Brazil and other countries, defends the preeminence of public health above intellectual property rights.

"After the Doha declaration on patents was announced in November, several opportunities were created for developing countries to gain access to these treatments," explained Roberto Paulo Teixeira, coordinator of Brazil's AIDS programme. "We're just trying to do what's possible to help." One of the first actions that Brazil took to help was the establishment of a lab in Guyana for the national production of antiretroviral drugs. Eloan Pinheiro, director of the principle drug production lab in Rio de Janeiro, says that many countries already have the infrastructure needed to begin production, and their main problem is quality control. Brazil is trying to address this problem through the transfer of technology aimed at ensuring bioequivalence and bioquality controls, to guarantee that generic drugs possess the same properties as the original, patented drugs.

GLOBAL ACCESS, DEBT AND HUMAN RIGHTS

Factors that can facilitate access to treatment for the 36 million people who live with HIV around the world include a reduction in prices, local production and the mobilization of international funds to purchase drugs. Negotiations on prices, held under the auspices of UNAIDS, have led international pharmaceutical companies to offer treatments ranging in price from $1,600 to $2,000 per person per year. This is a significant reduction compared to current prices of between $5,000 and $9,000 per person per year, depending on the particular combination used. The reduction is even more dramatic when compared to the $15,000-$20,000 per person per year that the therapies cost only six years ago.

Nevertheless, these reduced prices have been offered to only a few countries in Africa, and are well above the prices offered by the private lab Cipla Ltd. of India or the Government of Thailand. The latter announced at the start of 2002 that it would market the world's most economical antiretroviral therapy, offering a combination of three generic antiretroviral drugs for $330 dollars a year, or less than a dollar a day. Currently 2,000 people with HIV/AIDS are receiving free antiretroviral therapy in Thailand.

In an action that could help lower the price of AIDS drugs in poor countries, the World Health Organization included generic versions of drugs still under patent on its list of approved drugs for treatment of HIV/AIDS published early this year. The move has been described as a challenge to the transnational pharmaceutical companies. UNAIDS Director Peter Piot said that he trusts the list will

help patients gain "greater access to affordable, good quality drugs." The list includes 11 antiretroviral formulas and five drugs used to treat opportunistic infections, such as zoster infections, bacterial infections and Kaposi's Sarcoma. The largest pharmaceutical companies appear on the list, along with Cipla Ltd. The Indian lab was the first generic drug producer to try to break the patent monopoly at an international level by offering antiretroviral therapy to charitable organizations and African governments in February 2001.

There are still no signs of any initiative by WHO or any of the other eight agencies associated with UNAIDS to convince the IMF to let the governments of the most impoverished, heavily indebted countries increase their health budgets in response to the AIDS crisis. During a WHO meeting in October 2000, Harvard economist and professor Jeffrey Sachs observed that an annual health investment of 3 per cent of GDP represented only $8 per capita in many of the poorest countries, while in rich countries the figure ranges between $3,000 and $5,000. Heavily indebted poor countries, which in Latin America include Nicaragua, Honduras, Haiti, Guyana and Bolivia, must choose between paying their foreign debt or paying their social debt by investing in health, education and food security. Reducing the foreign debt depends on applying structural adjustment programmes that require cutting the share of the national budget devoted to health, education and food security, but unless these countries do so, they become ineligible for new loans. In this vicious circle, there is no question but that debt kills.

Heavily indebted poor countries must choose between paying their foreign debt or paying their social debt by investing in health, education and food security.

During the 2001 UN Special Session on HIV/AIDS in New York, Archbishop Lozano, the Vatican's representative, recognized this dilemma: "Too often we have failed to raise our voices to denounce the structural injustices and social sins perpetuated by the structural adjustment programmes of the International Monetary Fund and the global economic system, which directly affect the poor." Pope John Paul II's message on that occasion denounced inequalities and lamented that the high cost of the patented drugs required for antiretroviral therapy has made it impossible to treat HIV infections in poor countries. He recalled that there is a social debt outstanding on all private goods, and called for applying the same criteria to intellectual property rights, since "the law of profits cannot be the

only one applied in the struggle against hunger, disease and poverty."

The social crisis posed by AIDS clearly involves a whole set of human rights: the right to information, to respect for one's private life, to choice, and above all, to equality without any kind of discrimination. Because of AIDS, human rights have become the new health paradigm, as is increasingly recognized by public opinion and included on the political agendas of many countries. Preventing discrimination in health care is the most appropriate and viable strategy for responding to the HIV/AIDS epidemic, not only for humanitarian reasons but also from the perspective of efficiency and effectiveness. This paradigm demands the use of different approaches to understanding the HIV epidemic than those used in classical epidemiology. Measures like isolation, obligatory testing, quarantine, migratory restrictions, and subtle or open repression simply do not work in response to the AIDS crisis. Health must be seen from human rights, generational, gender and sustainable development perspectives. All over the world, AIDS has highlighted other ethical dilemmas. One of the most salient is the unjust distribution of wealth. The vast majority of people with HIV live in poor countries ruined by the inequitable laws governing world trade, financial globalization and one-size-fits-all structural adjustment plans.

Throughout the 1990s, 95 per cent of the $7 billion invested in AIDS prevention, education, treatment and research was spent in rich countries. In 2000, it was estimated that African countries would need some $3 billion a year to provide AIDS prevention, basic treatment and orphan care. This is not an unreasonable amount if compared to the $52 billion that the United States invests every year in dealing with the consequences of obesity. And it is more than reasonable when compared to massive US military spending.

One last fact worth emphasizing is that despite the solemn declarations, the human tragedies and the growing national and international mobilizations, there is still a lack of political will, commitment, and leadership to address the global AIDS crisis. UNAIDS has received only $2.8 billion of the $10 billion required to launch the Global Fund to Fight AIDS, Tuberculosis, and Malaria promised by the G-8 countries. The AIDS pandemic is far from reaching its peak, and future prospects are so grim there is no room for complacency.

"The law of profits cannot be the only one applied in the struggle against hunger, disease and poverty." Pope John Paul II on the high cost of patented antiretroviral drugs.

TO SHARE INFORMATION AND EXPERIENCE:

GLOBAL

Joint UN Programme on HIV/AIDS.
Email: unaids@unaids.org. Website: http://www.unaids.org
World Heath Organization. http://www.who.int Email: info@who.int.

REGIONAL

Latin American and Caribbean Council of AIDS Services Organizations (LACCASO). http://www.laccaso.org
International Council of AIDS Services Organizations (ICASO). http://www.icaso.org

NATIONAL

Brazil Brazilian Interdisciplinary AIDS Association/Associaçao Brasileira Interdisciplinar de AIDS (ABIA), Rua da Candelária, 79/10º andar — Centro, Rio de Janeiro/RJ — Cep: 20091-020. http://www.abiaids.org.br
Email: abia@abiaids.org.br
National Council of Sexually Transmitted Diseases and AIDS (Brazilian government), Director: Paulo Roberto Teixeira.
Email: pteixeira@aids.gov.br

Nicaragua Fundacion Nimehuatzin, President: Rita Arauz.
Email: nimehuatzin@cablenet.com.ni .

PUBLICATIONS, WEBSITE AND ARTICLES

Agua Buena (electronic bulletin on access to treatment and human rights in Central America). Email: rastern@racsa.co.cr .

AIDS Epidemic Update: December 2000, UNAIDS and World Health Organization, Geneva, Switzerland

Americas Program of the Interhemispheric Resource Center. The centre runs an information network that provides with email announcements of articles such as the above. To join the network and review posted articles, go to http://www.americaspolicy.org

Bruntland, Gro Harlem (WHO Director-General), 'Affordable AIDS Drugs are Within Reach,' *The International Herald Tribune*, February 14, 2001.

Foreign Policy in Focus: Three articles, available at http://www.fpif.org :
FPIF Editors, 'Citizens-Based Global Affairs Agenda: Democratizing Access to Essential Medicines,' March 2001.
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Revista Envio (Nicaraguan journal, Editor: Marta Lopez Vigil). Website: http://www.envio.org.ni

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United Nations Special Session of the General Assembly on HIV/AIDS, Report of the Secretary General, UN General Assembly, New York, February 16, 2001.

Migration, Remittances and the Rural Sector in Latin America

BY MANUEL OROZCO AND MICHELLE LAPOINTE

Every year, about 200 million people around the world are migrating. Migrants and the remittances they send home have a significant impact nationally and globally that calls for broader analysis. Remittances have become an enabling factor in national development, especially in rural areas of Latin America, and an integrating factor in the process of globalization. Working together in Hometown Associations, some migrant groups actively support projects in their countries of origin. These issues are explored by Manuel Orozco with Michelle Lapointe, both from Inter-American Dialogue, a Washington, D.C.-based centre for policy analysis, exchange and communication on Western Hemisphere affairs.

ALTHOUGH DEVELOPMENT economics has long considered foreign savings as key to increasing a country's capital-output ratio, it has neglected one very important source: migration, and remittances sent home by foreign workers. Migration has had an important role within globalization by integrating developing countries into the global economy. Specifically, through remittances, migration has brought new opportunities for social and economic change in rural areas.

Historically, four factors of foreign savings were considered: foreign direct investment, official development assistance, foreign trade and the transfer of technology. However, in the past 30 years, significant changes in the global economy spurring migration flows have influenced economic growth and development

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thought. Migration, or the movement of people, leads to economic ties between diasporas and home country economies in both the household and business sectors, making migration a relevant factor in development and social change.

This article addresses the relationship between migration and remittances on a global scale and in Latin America; examines the intersection between remittances and the rural sector, especially in Mexico, El Salvador, and Nicaragua; and analyses the role of hometown associations of migrants and their effect in the rural sector.

GLOBAL MIGRATION, DEVELOPMENT AND REMITTANCES

Globalization and migration are connected through a political economy of foreign labour demands in services and other divisions of labour (Orozco, 2002). Mittelman (2000: 4) describes the current anatomy of the global political economy as "a spatial reorganization of production among world regions, large-scale flows of migration among and within them, complex webs of networks that connect production processes and buyers and sellers, and the emergence of transnational cultural structures that mediate among these processes."

Mittelman stresses that "heightened competition among and within regions, mediated by such micropatterns as ethnic and family networks, accelerates cross-flows of migrants" (2000: 65). In turn, this cross-flow of migration produces economic effects in the labour exporting country, influencing economic growth and becoming an indicator of economic development. Labour migration has also contributed significantly to the integration of countries into the global economy.

Financial transfers resulting from labour migration take place in several forms. Migrant families or individual workers use their savings to make remittances to their families or communities in the home country. To a lesser extent, migrant associations send donations home. Some of these funds are used locally to make large or small investments for acquisition of land, property or small businesses. This spurs economic growth in areas traditionally neglected by the private and public sectors, such as rural communities. There are also effects on trade and tourism. The financial transfers therefore constitute key building blocks of economic growth and subsistence in many countries.

Migration has had an important role within globalization by integrating developing countries into the global economy.

Studies about remittances have often focused on their wealth-generating capacity through savings and investment, the

factors influencing their flow, and their effects in the recipient economies at the household level. However, the impact of migration and remittances is becoming sufficiently significant nationally and globally to call for broader analysis. Remittances are another source of foreign savings and, more than that, an enabling factor of growth (Orozco, 2003), especially in the rural areas that receive remittance flows but remain underdeveloped by private capital or governments. Remittances and migration are playing a greater role in national development and, more than that, in the wider process of global economic integration.

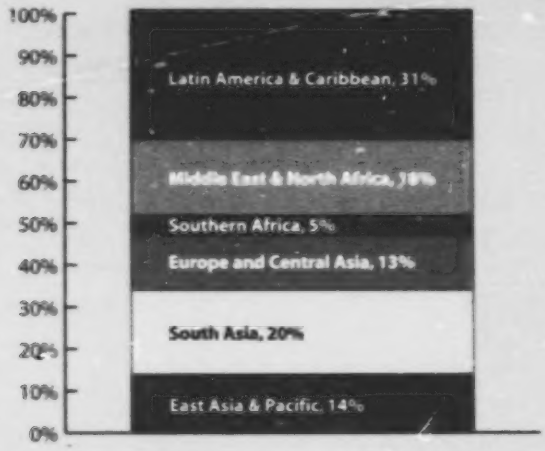
In most developing countries, international migration has emerged as a significant trend. Within the context of globalization, humans have become more mobile, nomadic and transient, both physically and technologically. The flows of international tourists have increased by millions of travelers. People working for transnational corporations have moved into different regions of the world where companies are expanding or intensifying their activities. Refugees leave countries and continents to escape from natural disasters, wars and conflicts that cause or exacerbate famines. Van Hear (1998) calls these refugees the "new diasporas" — people who migrate as a result of major contemporary economic and political transitions and transnational changes.

Workers continue relocating because of labour demands, usually in northern countries, economic distress in their home countries, or a combination of both. Families are increasingly becoming transnational; relatives live in more than one country, but maintain a transnational network of communication by reuniting or visiting regularly (Faist, 2000). Migration has become not only transnational but also transoceanic with, for example, Indians, Pakistanis and Bangladeshis going to Europe and the United States, or Dominicans, Jamaicans, Guyanese and Ecuadorians traveling to the United States and Europe.

Conservative estimates suggest that every year about 200 million people around the world are migrating (Harris, 2002). This number of foreign workers going abroad is significant and indicative of broader changes in the global context. Because of globalization people are able to travel longer distances and reach more countries. Demand for foreign labour has increased, with more countries involved and larger numbers of migrants being sought in receiving countries. Moreover, the migration flows are not unidirectional from South to North. For example, Greeks migrate to Germany and the United States, while Albanians migrate to Greece. South Africans move to Australia and England, while Malawians, Mozambicans, and Zimbabweans travel to work in the South African mines and the service industry as domestic workers.

Global migration flows may be greater than those estimates. Many receiving

FIGURE 1: WORLDWIDE FLOWS OF WORKER REMITTANCES BY REGION, 2002



Source: Orozco, March 2003.

countries are expanding the number and type of migrants they take in. Migration abroad is taking place among both skilled and unskilled workers. There is a continuing elite migration of highly trained and skilled professionals. These migrations are not only going northward, but have also gone into Southern areas of the world, such as the oil-producing countries where a demand for skilled labour has emerged since the 1970s.

One of the manifestations of the effects of international migration is remittances. Total remittance flows continue to increase over time "with an annual average in the previous decade of US$700-1000 per worker" (Harris, 2002:87), and possibly reaching more than $100 billion (Orozco, March 2003). Estimates of remittances vary significantly. The International Monetary Fund and the World Bank, for example, report on just 8 countries receiving a total of nearly $80 billion. Despite the lack of significant data, these figures offer a preliminary map of remittances (see figure 1).

REMITTANCES TO LATIN AMERICA

As figure 1 shows, Latin America is the main remittance recipient area in the world, receiving about 31 per cent of the flow. Following Latin America are South Asia, Europe and Central Asia, and East Asia and the Pacific with 20, 21 and 18 per cent of the flow, respectively. One or two countries make up over 50 per cent of the total flow in each region. For exam-

TABLE 1: REMITTANCES TO MAJOR REMITTANCE RECIPIENT COUNTRIES (2000)

Country	COUNTRY'S SHARE OF REMITTANCES: Worldwide	To its region
India[a]	15%	73% (South Asia)
Mexico[a]	8%	34% (Latin America/Caribbean)
Philippines[a]	8%	43% (East Asia/Pacific)
China[b]	8%	43% (East Asia/Pacific)
Turkey[a]	6%	27% (Europe/Central Asia)
Egypt[a]	5%	35% (Middle East/North Africa)
Spain[a]	4%	20% (Europe/Central Asia)
Portugal[a]	4%	19% (Europe/Central Asia)
Morocco[a]	3%	20% (Middle East/North Africa)
Bangladesh[b]	2%	12% (South Asia)
Jordan[b]	2%	17% (Middle East/North Africa)
El Salvador[a]	2%	9% (Latin America/Caribbean)
Dominican Rep.[a]	2%	9% (Latin America/Caribbean)
Greece[a]	2%	10% (Europe/Central Asia)
Nigeria[b]	2%	65% (Southern Africa)
Yemen[b]	2%	12% (Middle East/North Africa)
Main countries		75%

Source: [a] Central banks of each country. [b] World bank, *World Development Indicators 2002.*

ple, India, the world's largest remittance recipient country, accounts for 73 per cent of the flow to South Asia. Mexico represents 34 per cent of Latin America, and the Philippines 43 per cent of East Asia and the Pacific (see table 1).

In Latin America, worker remittances are becoming increasingly relevant to the economies of many countries. In 2002, Latin America received more than $30 billion in remittances from the United States, Japan, Europe, Canada and Latin America itself. Table 2 below shows the total amounts sent to selected Latin American and Caribbean countries in 2002. The table also shows remittances as a percentage of GDP and exports in selected countries — percentages that are significant for the smaller economies of Central America and the Caribbean.

TABLE 2: REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN, 2002

Year	Total Remittances (million)	As % of GDP (2000)	As % of Exports (2000)	Average transfer sent per immigrant ($)
Mexico	$9,815	1.7	6.5	378
Brazil*	$4,000	0.4	4	376
Colombia	$2,272	2.1	2.4	256
Dominican Rep.	$1,939	10	27	199
El Salvador	$1,935	17	60	287
Guatemala	$1,579	3.1	16	269
Ecuador	$1,432	9	20	295
Jamaica	$1,200	15	30	263
Cuba*	$1,100	5	40	
Peru	$1,100	1.7	10.6	191
Haiti*	$810	24.5	150	162
Honduras	$720	7.5	17	257
Nicaragua*	$660	22	80	146
Venezuela	$220	.28	1	228
Costa Rica	$200	1.3	3	350
Guyana*	$100	14	14	
Bolivia	$90	1.25	6.71	276
Trinidad and Tobago	$50	.76	1	
Eighteen countries	$29,223			

Source: Central Banks of each country. *Author's estimates, World Bank "World Development Indicators 2002" CD-ROM, and National Money Transmitters Association.

Remittances to El Salvador have, on occasion, exceeded the total value of exports, and are over half the value of exports in the Dominican Republic and Nicaragua (Orozco, 2002). Even in Mexico, which has a strong export-oriented market, remittances equal 10 per cent of the total value of exports, almost as much as the income from tourism, and about 80 per cent of the value of foreign direct investment.

The overwhelming majority of remittances received in Latin America are sent from the United States. The Central Bank of Mexico, for example, estimates that 95 per cent of the total remittances originate in the US. For Jamaica, the US accounts for 70 per cent of the remittances received.

According to the US 2000 Census, more than 40 per cent of Latinos in the US earn less than $20,000 a year and

more than 70 per cent earn less than $35,000 a year. On average, immigrants in the United States send $260 in remittances at least seven times a year, but these amounts vary depending on the country of origin. Among Latin Americans, Mexicans, Brazilians and Costa Ricans send the most, while Peruvians, Haitians, and Nicaraguans send the least.

In Latin America, worker remittances are becoming increasingly relevant to the economies of many countries.

Even considering variations in amounts sent and income levels, remittances represent at least 10 per cent of the migrant's income. This proportion can reach as high as 22 per cent for Mexican immigrants, who represent the largest share of Latinos in the United States and send more money than other Latino groups (nearly $400 a month).

The lower level of remittances sent by Nicaraguan and Dominican migrants — respectively the lowest and third lowest out of 18 countries — seems to reflect their lower income. In a recent year, the average income of Nicaraguan households in Miami was $1,821 a month, with remittances averaging $146 a month or less than 10 per cent of income (Fernandez-Kelly and Curran, 2001). Among Dominicans in New York and the United States, per capita household income is $9,069 and $11,013 respectively, according to the US Census (Rivera-Batiz, 2002).

The flow of remittances into vulnerable and neglected areas, including the rural sector, provides alternatives for subsistence and survival and has important implications for social change. Demographically, most remittance recipients are from the rural sector, most are women, and most are poor. According to the *Consejo Nacional de Población* (2000), the Mexican office of the census, approximately 70 per cent of remittance recipients are women, and about half the recipients are part of the economically inactive population and have no other source of income. In Honduras, about one-third of the remittance-receiving households are in rural areas and at least 80 per cent are poor (ECLAC, 1999).

IMPACT OF MIGRATION AND REMITTANCES ON RURAL LATIN AMERICA

The rural sector in Latin America continues to represent an important challenge to development players and policy makers. A significant percentage of the Latin American population is rural, in some countries as high as 50 per cent. Rural Latin Americans face significant constraints due to the lack of social and economic modernization, the limited productive activities outside agricultural subsistence, and the reduced value that agriculture represents for a country's economy (Valdés and Mis-

tiaen, 2001). Infrastructure and services in the rural sector are relatively scarce and, when available, costly. Moreover, partly because of underdevelopment levels and deep inequality, poverty rates are higher than in urban areas. While nearly 40 per cent of Latin Americans live in rural areas, agriculture — the main source of income in the rural sector — makes up only 12 per cent of gross domestic product on average.

Modernization and development have been slow in these countries. By and large they have not succeeded in increasing per capita incomes and absorbing rural workers into the industrial and service workforce in urban settings. Large segments of the population remain in significantly undeveloped regions.

Despite these constraints, domestic and international migration has become a mechanism to cope with poverty and the advancing modernization of urban sectors. Many Central American and Mexican migrants to the United States come from rural Latin America. The US Census reports that there are nearly 17 million Latin American immigrants, 50 per cent of whom are Mexicans (US Census CPS 2002 data).

Key to the flow of remittances is the destination of the money and its effects on the household and the local economies. Despite the difficulties in costs associated with their transfers, remittances in rural Latin America have had a positive effect. Considering the problems in rural Latin America, remittances have emerged as an alternative form of financial relief for households.

Moreover, effects of emigration from Latin America to the United States are varied. Some analysts argue that it has adverse impacts, while others claim that family remittances are a positive outcome. The answer, however, varies depending on the specific conditions in each country and area of migration. One important issue is that emigration from rural areas represents to some extent an adversity insofar as those who migrate tend to have more skills and abilities.

In many towns in Mexico and Central America, emigrants are young males with agricultural skills and the ability to borrow in order to achieve the goal of working abroad. Taylor stresses, for example, that emigration affects agricultural production in various ways. First, there is a decline in the available labour force. But, second, the influx of remittances helps to compensate for the adverse effect on agricultural productivity, because the currency generates a demand for goods that in turn has a multiplier effect on the local economy (Taylor, 2001). It is also worth considering that although the decline in the labour force affects agriculture, most of the migration occurs in the first place because the depressed rural economy cannot absorb the local labour force.

Another important relationship between migration and the rural sector comes from the linkages established between immigrants and their hometowns. Partly inspired by the dynamics

of family remittances and increasing transnational networks, immigrants have formed community groups to maintain relationships with the country or with local communities. These organizations, known as hometown associations, are part of a growing trend in transnational social movements, influenced by both migration patterns and globalization.

A significant flow of remittances goes to rural areas. Examples are Mexico, El Salvador, Dominican Republic, Haiti and Nicaragua. In Mexico, 10 states generate the majority of emigration. A study by El Colegio de la Frontera Norte (ECFN, 1994) showed that over 75 per cent of all migrants leaving Mexico originated in 10 states. Similarly, the top ten remittance-receiving states — Guanajuato, Jalisco, Michoacán, San Luis Potosí, Guerrero, Zacatecas, el Distrito Federal, el Estado de México, Chihauhua and Durango — receive over two-thirds of all remittances sent to Mexico (Torres, 2001:3)

In Mexico, 56 per cent of international emigrants are from urban areas, while 42.1 per cent came from rural areas (ECFN, 2002:36). However, remittances play a larger role in rural Mexican economies than in urban ones. In 1996, 10 per cent of all rural households reported receiving remittances, while fewer than 4 per cent of urban households reported receiving them.

In El Salvador, 60.5 per cent of international emigrants are from urban areas, while 39.5 per cent came from rural areas (Garcia, 1998:10). In El Salvador, the departments that lose the highest percentages of their populations to migration — San Vicente, Cabañas, Chalatenango, Morazán, La Unión and Sonsonante- share characteristics with their Mexican counterparts. Notably, they are the most ecologically deteriorated states, have the lowest standards of living, and lack significant infrastructure. In absolute numbers, on the other hand, the urban centre of San Salvador sends the largest numbers of migrants abroad, with approximately 22 per cent of Salvadorans in the United States originating in San Salvador (García, 1998: 7-8). It is thus interesting to note that the geographic distribution of the remittance-receiving households in each country is similar. While rural households in each country make up a significant percentage of all remittance recipients, the majority are located in urban areas.

Migration from Nicaragua goes predominantly to the United States and Costa Rica. In a nationwide study conducted in June 2001, 42 per cent of those living in Managua reported having a relative abroad, against 35 per cent in the Pacific region and 29 per cent from North-Central Nicaragua. The majority of those reporting outside Managua had relatives working in Costa Rica, whereas those living in Managua had relatives predominantly migrating to the United States (Orozco, 2003).

Receiving households use the vast majority of remittances for everyday expenditures and consumption in both

TABLE 3: DISTRIBUTION OF EXPENDITURES BY REMITTANCE-RECEIVING HOUSEHOLDS

Mexico			Nicaragua	El Salvador
Type of Expenditure	Per cent	Type of Expenditure	Per cent	Per cent
Current monetary expenditures	77.1	Food	75.5	79.4
Savings	14.1	School	6.7	
Housing and land	4.0	Clothing	5.8	
Debt	2.0	Housing	2.9	
Machinery, equipment & animals	0.2	Business	1.8	
Other	2.6	Savings	1.4	
		Savings and Productive Agricultural Inputs		2.6
		Other	3.8	

Source: Consejo Nacional de Población. "Migración México-Estados Unidos: Presente y Futuro." Consejo Nacional de Población. Mexico: 2000, p. 176. Encuesta Nacional Sobre Gobernabilidad y Elecciones: Modulo Sobre Migración, Uso de Remesas Familiares y Ahorro, Managua 05 de Julio de 2001, Instituto de Estudios Nicaraguenses; García, Juan José. "Las Tendencias de la Migración en El Salvador," FUSADES-PNUD, 1998, p. 10.

urban and rural areas. For example, Mexican families receiving remittances from abroad typically spend over 75 per cent on daily needs such as food and clothing (table 3). Nicaraguan and El Salvadoran families exhibit similar spending patterns. In surveys conducted in each of these countries over three-quarters of the population spent their remittances on food alone (table 3).

In the rural sector, a portion of remittances is used to purchase land. An ECFN survey in Mexico found that remittance recipients in low density (mostly rural) areas typically spent more money on machinery and other equipment than their counterparts in more populated areas. This same study of rural Mexican areas concluded that remittances spent on such inputs as land, cattle and other agricultural equipment allowed rural households to continue these agricultural activities despite no apparent earnings from the agricultural production itself (ECFN, 2002:39-40, 127).

Remittances are connected to savings mobilization, financial activities among small businesses and entrepreneurs, and insurance functions in many Latin American countries. In the case of investment,

immigrants send money back home with the specific purpose of acquiring some investment opportunity. Immigrants buy land, materials to work the land or seeds to plant. A recent study in Mexico showed that remittances were responsible for 27 per cent of the capital invested in micro enterprises, and 40 per cent of the capital in the major remittance receiving areas of the country (Woodruf and Zenteno). Other studies have shown that immigrant remittances also operate as a form of insurance to protect against uncertainties.

Specifically, Pozo (2002) argues that, although immigrants face income risks, remittances continue an incremental trend. The money is sent home to purchase assets as a form of precautionary savings. She stresses that "older migrants, female migrants, migrants with a greater fraction of family members working for pay, migrants who came accompanied by friends/family to the United States, and migrants with greater educational attainment are more likely to remit for asset accumulation." Taylor (2001:219) maintains that remittances have a positive effect in the rural sector by generating employment and its multiplying effects on the local economy and thus alleviating restrictions on local production.

These connections, however, are spontaneous and often occur under conditions of incomplete information for the entrepreneur about affordable lending opportunities. Within this context, microfinance institutions and credit unions are poised to play a key role in bringing financial services to an already existing demand for economic transactions.

HOMETOWN ASSOCIATIONS AND RURAL DEVELOPMENT

Hometown associations (HTAs) represent another important relationship between the rural sector and immigrants. Created to maintain links with and support communities of origin, HTAs are increasingly taking advantage of the upsurge in family remittances and the need for economic aid in their home countries. HTAs work to retain cultural ties and improve their home country communities.

Hometown associations are primarily philanthropic groups whose work sometimes overlaps with economic development. Organizations made up of Salvadorans, Guatemalans, Mexicans, Guyanese, Dominicans and others work to support their towns of origin. According to the Mexican consulates, there are over 700 registered clubs, but government officials in Mexico and Latino community leaders estimate a much higher and increasing number. In Chicago the number of Mexican hometown associations increased from 21 to about 120 clubs between 1994 and 2002.

HTAs vary in level of organizational formality, but most have governing boards of 10 or fewer members that include a president, secretary, treasurer and auditors. Elections for these positions are held every 6-12 months. This core membership chooses projects and mobi-

lizes more extensive support for fundraising. HTAs hold fundraising events for specific projects and often attract 200 or more participants.

Generally, a club member visits the hometown, returns with a list of needs, and proposes three or four projects to the president, who then initiates discussion and calls a vote among active members. The projects reflect a combination of perceived community needs and the preferences of members.

HTA members are motivated by a practical desire to improve economic and social conditions in the hometown and hope to prevent future emigration. They engage in a wide range of projects, including public infrastructure (like road pavement and electrification), health and education, support to the town church or cemetery and town beautification (such as park construction).

The most popular types of HTA activity are health and education projects. These generally involve construction or repair of health centres and school facilities and the donation of materials such as computers. Such projects attract wide support because they are tangible and assist the town's most vulnerable populations, the elderly and children. Public infrastructure projects are also common and often preferred by town mayors, who equate construction work with progress.

HTAs undergo a learning process, generating new ideas and lessons from previous experiences. At the same time, newer HTAs tend to diversify their activities and increase their focus on economic infrastructure and investment. Older associations continue to focus on more traditional activities dealing with recreation or town beautification, whereas clubs formed after 1995 dedicate resources to a wider variety of projects, with primary emphasis on health and education, infrastructure (public works), and church repairs.

Infrastructural activities, such as paving roads or electrifying neighborhoods can be both philanthropic and developmental. Experiences in rural Mexico and El Salvador show that construction in rural areas where there is no basic infrastructure has been important to communities. In many parts of Mexico, for example, infrastructural development precedes any investment strategy, and the donations by hometown associations play a key role.

The majority of Mexican HTAs raise about $10,000 a year on average to help their communities, although some groups raise up to $100,000 annually. HTAs are conscious of their limited fundraising base and choose activities appropriate to their resources. While small by US standards, this level of donations nonetheless has a substantial impact in the rural receiving communities. In fact, the majority of HTAs work in rural towns with populations under 1,000. These communities have annual per capita incomes of less than $400, highly underdeveloped public and financial infrastructures, and lack any type of commercial centre. Moreover, at least a third of households receive

remittances, and residents must travel at least 50 kilometres to purchase goods.

In these communities, HTAs are even more striking when compared to the municipal public works budgets. In towns with fewer than 3,000 people, the HTA donation is equal to over 50 per cent of the budget allocated for public works. For localities with populations under 1,000, the HTA donation can be up to seven times larger than the public works budget. HTAs work on projects that would otherwise be impossible for these communities to implement.

One way that HTAs have been able to magnify the impact of their donations is through matching grant programmes with the Mexican government. Since 2002, HTAs have participated in a programme called *Iniciativa Ciudadana 3x1*, in which every dollar donated by a club is matched by a dollar each from the local, state, and federal governments. This federal programme was preceded by informal partnerships as well as formal initiatives, such as the 2x1 programme, in various states. States with high rates of emigration and well-organized migrant communities in the United States, including Zacatecas, Guanajuato, Jalisco, and Michoacán, are the most active in the 3x1 programme. Together, they represent over two-thirds of the amount allotted on a national level.

The 3x1 programme has increased HTA contact with government officials, especially on the local level. Relationships with mayors are particularly important, as the local government often contributes to projects not just financially, but also with labour and donations in kind. Construction projects in particular provide much needed jobs to local residents. Subsequent maintenance and repair require additional funds and labour; for street paving and electrification projects, which becomes the responsibility of the mayor and local government. For other types of projects, some HTAs take on the task of providing the continuity. Most associations have worked for ten consecutive years implementing a range of projects. The lifespan of an organization provides an important clue as to how long it can provide support to a given project.

When a club participates in the 3x1 programme, it establishes a committee in the hometown to oversee the disbursement of funds and the overall project implementation. HTAs working outside the 3x1 programme often establish links with individuals, including relatives and local leaders such as priests, to serve as the clubs' liaisons in the hometowns. Generally, the local contact person acts as a manager and foreman of the project, providing information about budgets and schedule of work. HTAs do not usually have a hands-on role until the very end of a project, when they are present to offer a quality assessment.

By virtue of their close contact with government officials as well as their close oversight of projects, local representatives of HTAs play an important role in promoting civic participation. Nearly 80

per cent of HTAs have interacted with municipal government authorities. These local liaisons also enhance transparency by monitoring the disbursement of HTA funds and holding local government officials accountable for timely completion of projects. In addition, HTAs have established relationships with other local groups, such as firefighters, teachers and doctors, in individual projects. While outside of a formal partnership like 3x1, these links are important in maintaining close contact with the town.

Many HTAs join larger federations, composed of several clubs from the same Mexican state. Membership in a federation increases coordination among members and entails greater commitment on certain projects. The advantage of joining a federation is that an individual club can strengthen its voice and engage in larger-scale projects, possibly with clubs from neighbouring towns. A federation also has greater power to negotiate with the federal and state governments, and federations have been instrumental in expanding programmes like 3x1.

While the aggregate amount donated by HTAs is difficult to determine, the Mexican federal government invested $15 million in 2002 to match with clubs in the 3x1 programme. Approximately 50 per cent of HTAs participate in this programme, and those who do not participate in 3x1 donate similar amounts. Therefore, at a minimum, Mexican HTAs donate $30 million a year to their communities. Furthermore, because the number of HTAs registered with the consulates is only a snapshot of the total in existence, it is likely that the overall amount donated is much higher. In addition, there are 2x1 schemes in different states that operate independently and remain outside the amounts allocated by 3x1.

Among the important alternatives to consider in the changing development dynamics in Latin America and the Caribbean, remittances provide a very important financial stream, especially in rural areas. The Dominican Republic, Guatemala, Guyana, Haiti, Mexico, Nicaragua and El Salvador and are all countries where at least one quarter of remittances goes to their rural areas. If adequately addressed, remittances can become a major form of foreign savings energizing the rural sector into a process of modernization.

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CURRENT TRENDS, PERSPECTIVES AND EVENTS

WINDOWS on the SOUTH

CONNECTING THE GLOBAL INFORMATION SOCIETY

A common vision of a global information society and a road map for achieving that vision were adopted by the World Summit on the Information Society, held in Geneva 10-12 December 2003. The vision is contained in a Declaration of Principles and the road map in a Plan of Action that were agreed upon by representatives of 176 countries.

Some main targets set at the Summit, attended by more than 11,000 participants, are to connect all schools, villages, governments and hospitals with information and communication technologies (ICTs) and bring half the world's population within ICT reach by the year 2015.

Participating were national leaders and policy-makers, including 54 heads of state, prime ministers, presidents and vice-presidents, as well as 83 ministers and vice-ministers from 176 countries. The Sumrait also brought together ICT business people and voluntary and non-governmental organizations of many kinds. Alongside three days of plenary meetings and roundtables, nearly 300 side-events helped bring the dream of an inclusive information society one step closer to reality. The goals of all these gatherings were to commit policy makers to making ICTs a top priority and to bring together public and private sector players in an inclusive dialogue based on the interests of all.

While the Summit closed on an optimistic note of consensus and commitment, it was only the start of a long and complex process, said Yoshio Utsumi,

Secretary-General of the International Telecommunication Union and the Summit. "Telephones will not feed the poor, and computers will not replace textbooks. But ICTs can be used effectively as part of the toolbox for addressing global problems. The Summit's successes now give us the necessary momentum to achieve this," he said. He listed a number of continuing challenges that still need attention: internet governance, access, investment, security, development of applications, intellectual property rights and privacy.

Negotiations and next steps

The Summit agreed on special task forces to continue working on several issues that had been extensively negotiated. On the issue of internet management, it was agreed that all concerned stakeholders and intergovernmental organizations should be involved in addressing both technical and public policy issues. An open and inclusive working group will be set up to develop proposals for action. Another task force will be established to review existing ICT funding mechanisms and study the feasibility of an international voluntary Digital Solidarity Fund. Conclusions of these working groups will be presented to the second phase of the Summit, to be held 16-18 November 2005, hosted by the Government of Tunisia

Regarding the future steps required, the ITU Secretary-General commented: "We need imagination and creativity to develop projects and programmes that can really make a difference. We need commitment — on the part of governments, the private sector and civil society — to realistic targets and concrete actions. We need the mobilization of resources and investment."

United Nations Secretary-General Kofi Annan told delegates, "Technology has given birth to the information age. Now it is up to all of us to build an information society from trade to telemedicine, from education to environmental protection. We have in our hands, on our desktops and in the skies above, the ability to improve standards of living for millions upon millions of people.

The Summit focused on ways that new technologies can help lift more than one billion people out of extreme poverty. Countries worldwide are moving onto the information superhighway, but while at least one third of people in the industrialized countries are internet users, in the 49 least developed countries less than 1 per cent get online. "The question is how do we leverage this technological revolution for a revolution in development that can make a real difference to the everyday lives of the world's poor," said UNDP Administrator Mark Malloch Brown. During the Summit, he moderated a roundtable with heads of state on information and communications technology as a tool to achieve the Millennium Development Goals. Over the past decade, UNDP helped bring private and public sectors together to set up the first internet nodes in 24 countries and enable more than 25,000 organiza-

tions and institutions to train millions of men and women in basic computer skills. The Summit identified national e-strategies as the key vehicle to meet the targets. Connecting public places, revising school curricula, extending the reach of TV and radio broadcasting services and fostering rich multilingual content are all recognized as needing strong commitments from national governments. To encourage and assist national and local governments in this work, the Summit also foresaw the development of international statistical indicators to provide yardsticks of progress, exchanges of experience to help develop 'best practice' models, and the fostering of public-private partnerships internationally in the interests of sustainable ICT development. To these ends, it called for collaboration across the complex information society chain — the scientists that create powerful ICT tools, the governments that foster a culture of investment and rule of law, the businesses that build infrastructure and supply services, the media that create and disseminate content and, above all, human society, which ultimately employs such tools and shapes their use.

Partnerships and initiatives

Several new partnership and cooperation agreements were revealed during the Summit. The US government announced a $400,000 grant for ICT development in low-income countries. Cisco and ITU signed a Memorandum of Understanding to open 20 more internet Training Centres in developing countries. Hewlett-Packard will provide low cost products to help overcome the illiteracy barrier to ICT, involving, for example, a method to recognize handwritten texts for e-mail transmission. Microsoft, working with UNDP, will provide a billion dollar programme over five years to bring ICT skills to underserved communities.

One innovative initiative announced to help bridge the digital divide is the Bhutan 'e-post' project. For faster, cheaper and more reliable communication to remote, mountainous areas of Bhutan, the Government of India will deliver e-post services to the Bhutanese Postal Service via a $400,000 V-satellite network and solar panels power system. The partners include ITU, Bhutan Telecom and Post, Worldspace and Encore India.

The cities of Geneva and Lyon and the Government of Senegal announced contributions totaling about 1 million euros to fund information technology in developing countries. The contributions will represent the first payments towards the Digital Solidarity Fund, the creation of which is to be considered by a UN working group for the Tunis phase in 2005.

Other initiatives include two studies by UNDP of ICTs in Asia and the Arab region regions whose findings were previewed at panel meetings during the Summit. The Asian regional Human Development Report, due in 2004, considers the harnessing of ICTs to help

achieve Millennium Development Goals in Asian countries including China, India, Indonesia, Malaysia, Mongolia, Pakistan and Sri Lanka. The Arab regional report, just issued in 2003, is titled *Building a Knowledge Society*. Also the Summit offered courses on such topics such as e-governance, emerging technologies, and security, through UNDP and the Smithsonian Institution in partnership with the Swiss Agency for Development and Cooperation (SDC) and the Global Knowledge Partnership.

Links

On the above and numerous other topics, there is a wealth of information, experience and ideas to be shared by logging onto and clicking around the Summit's website at http://www.itu.int/wsis. Topics include:

- ICT information and regional conferences from Africa, Asia-Pacific, Latin America and Caribbean, Western Asia, and Europe;
- Summit and conference documents;
- thematic links;
- activities of the UN system and other international organizations;
- business sector entities and private-public partnerships, NGOs and civil society;
- academic institutions and development/knowledge networks;
- associations, foundations and internet regulatory bodies; and
- the Summit's working group on gender issues.

AIDS DRUGS FOR 3 MILLION PEOPLE BY 2005 — THE '3 BY 5' TARGET

The global AIDS epidemic shows no signs of abating:

- 40 million people around the world are infected with HIV.
- 5 million people became infected with HIV worldwide in 2003.
- 3 million died in 2003 alone — that's 8,000 people every day.
- 6 million people worldwide are in immediate need of AIDS treatment.

There are now concrete plans for providing antiretroviral treatment to three million people living with AIDS in developing countries and countries in transition by the end of 2005. This '3 by 5' target was announced by the World Health Organization and UNAIDS on 1 December 2003. It represents a step towards the ultimate goal of providing universal access to AIDS treatment to all those who need it.

"Preventing and treating AIDS may be the toughest health assignment the world has ever faced, but it is also the most urgent," said Dr. Lee Jong-wook, the WHO Director-General. "The lives of millions of people are at stake. This strategy demands massive and unconventional efforts to make sure they stay alive."

"We firmly believe that we stand no chance of halting this epidemic unless we dramatically scale up access to HIV care," said Dr. Peter Piot, UNAIDS Executive Director. "Treatment and prevention are

the two pillars of a truly effective comprehensive AIDS strategy."

Evidence and experience shows that rapidly increasing the availability of antiretroviral treatment can contribute to the rapid acceleration of prevention efforts. Individuals on effective treatment are also likely to be less infectious and less able to spread the virus. Good treatment programmes will encourage more people to come forward for testing their HIV/AIDS status and lead to more openness about AIDS.

To reach the 3 by 5 target, WHO and UNAIDS will focus on five critical areas:

- **Simplified, standardized treatment.** The number of WHO-recommended treatment regimens has been cut to four from 35. All four are equally effective. The treatment selected for a patient will be based on individual needs and the availability and suitability of a particular regimen in a country. Also recommended is the use of quality-assured 'fixed dose combinations' or easy-to-use blister packs of medicine whenever available. The aim is to ensure that all people living with AIDS, even in the poorest settings, have access to treatment through this approach.
- **Reliable supply of medicines and diagnostics.** WHO, UNICEF and other partners will operate a new global AIDS Medicines and Diagnostics Service (AMDS) to ensure that poor countries have access to quality medicines and diagnostic tools at the best prices. The service will evaluate medicines and diagnostics to ensure that manufacturers, products, procurement agencies and laboratories meet international quality, safety and efficacy standards. AMDS will also help countries forecast and manage the supply and delivery of necessary products for the treatment and monitoring of AIDS.
- **Sharing of successful strategies and new knowledge.** Simplified monitoring methods are available for sharing and wider application. For example, tests such as body weight and colour-scale blood tests are easy to use. They are less complicated and less expensive than tests for viral load and white cell (CD4) count, which in any case are not widely available. The simpler tests, combined with clinical evaluations by adequately trained health workers, can be effective in monitoring the progress of AIDS, the effectiveness of treatment and its side effects.
- **Urgent, sustained support for countries.** Antiretroviral therapy programmes can only be expanded if there is coordinated, scaled-up action in countries, particularly those hardest hit by AIDS. Immediately following the declaration of a global AIDS treatment emergency, more than 20 countries

requested collaboration and input from WHO, UNAIDS and other partners. Teams quickly began work in Burkina Faso, India, Kenya, Malawi, Ukraine and Zambia. The teams work with governments to identify and remove obstacles, so that antiretroviral medicines can be provided quickly to the people who need them most. Training of health workers is an urgent need in all countries involved. The 3 by 5 strategy includes innovative strategies for urgent training of tens of thousands of community health workers to support the delivery of HIV/AIDS treatment, to monitor patients to make sure they receive and take their medicines and to promote prevention.

- **Global leadership, partnership and advocacy.** "We know what to do but what we urgently need now are the resources to do it," said Dr. Lee. "We must waste no time in building strong alliances immediately to implement this strategy. Three million people are counting on it." Reaching the 3 by 5 target will require substantial new funding for AIDS treatment from all sources — countries, donor governments and multilateral funding agencies. WHO has estimated that the funding required amounts to approximately $5.5 billion over the next two years.

BAREFOOT COLLEGE

India's 'Barefoot College' works on the premise that an individual's will to learn and aptitude for learning are more important than any formal degree or paper qualification. Its basic human-centred philosophy (see box) is that local people using their own skills can meet their own needs and manage their own resources.

People trained by the college now work in many fields — as night school teachers, health workers, computer operators, solar engineers or hand pump mechanics. The college also works to meet basic needs: water, health, education and employment, while enrolling individuals in the processes that govern their lives. It now provides basic services to 100 villages and more than 100,000 people spread over 500 square miles.

The college began in 1972 as the Social Work and Research Centre (SWRC), located in Tilonia, a quiet village in the Ajmer district of Rajasthan. Its programmes initially used urban expertise from outside the area, but today all programmes are run by people who have no formal educational or professional degrees. Even the new campus at Tilonia was designed and built by one of the villagers, who can barely sign his name. The campus uses old traditional methods of keeping buildings cool, and the new technology of solar energy provides electrical power.

From the beginning, SWRC practised the idea of sustainable development through self-sufficiency. Unlike many

government-sponsored projects, the college does not provide free services. It charges a nominal fee for all services, including health services, training, installation of hand pumps or solar electrification for lighting. The college believes that a sense of ownership is very important for the success of any project and comes only when individuals themselves pay for services.

It also believes that new trends in technology and high-tech machines are not always synonymous with development. It does not impose technology on people in rural villages or use technology that deprives people of employment. Adapting and improving existing traditional ways is often more effective than using newer technologies. Any new technology has to be thoroughly tested and modified to ensure it is relevant and effective.

The Barefoot College concept percolates to the 110 villages of the Silora Block through the 12 field centres, each serving from 9–35 villages. The field centres are free to decide their own course of action and depend on the main centre only for certain policy and administrative needs.

At the college in Tilonia there is no managerial hierarchy, and its egalitarian nature is reflected in all aspects. The difference between the lowest and highest paid staff is not more than 1 to 3, and performance evaluations are done by staff themselves for each other. In the community dining hall, there is no distinction by caste, religion, or position, food is self-service and so is dish washing. After initial resistance to mixing, 'higher caste' and 'lower caste' individuals now boast of having 'unity in diversity.' The college trains and employs unemployed

BOX 1: THE BASIC HUMAN PHILOSOPHY OF THE BAREFOOT COLLEGE

The Barefoot College is a place of learning and unlearning. It's a place where the teacher is the learner and the learner is the teacher. It's a place where NO degrees and certificates are given because in development there are no experts — only resource persons. It's a place where people are encouraged to make mistakes so that they can learn humility, curiosity and the courage to take risks, to innovate, to improvise and to constantly experiment. It's a place where all are treated as equals and there is no hierarchy.

So long as the process leads to the good and welfare of all; so long as problems of discrimination, injustice, exploitation and inequalities are addressed directly or indirectly; so long as the poor, the deprived and the dispossessed feel it's a place they can talk, be heard with dignity and respect, be trained and be given the tools and the skills to improve their own lives, the immediate relevance of the Barefoot College to the global poor will always be there.

From the website www.barefootcollege.org

people from the villages to help them become a productive part of the centre; almost 98 per cent of the workers at the college are from the neighbouring rural area.

One example of action by the college is drinking water, which is obviously a vital resource for all villages. Originally the emphasis was on installing handpumps, and now that Rajasthan has 45,250 handpumps the college has trained 770 barefoot mechanics, including 45 women, to carry out all handpump repairs. Since 1986, the college has focused on rainwater harvesting and piped water systems in order to provide easy access to drinking water. Eleven villages and 13,000 people now benefit from community piped water supply systems, designed, planned and implemented entirely by the village people. These communities pay Rs. 20 per month for two hours of water per day.

Rainwater harvesting by means of roof collectors is also important, especially in areas of brackish ground water with high iron and fluoride content. Rainwater collectors now gather 19 million litres in 380 schools and community centres. Fifteen women have been trained as barefoot engineers to fabricate and construct overhead water tanks with a capacity of 100,000 litres.

Other water initiatives include use of mobile kits for testing water quality in 78 villages in eight states and training of 35 rural youth as barefoot chemists in those states, and removing silt from more than 100 village ponds as a way of 'drought-proofing' them, with training of 250 women to plan, supervise and implement pond de-silting.

The Barefoot College believes its methods will work in any poor rural community anywhere in the world where there is extreme poverty; where the rural communities are neglected, deprived and forgotten, and have no choice but to develop and depend on their own knowledge and skills; where families in the communities depend on each other and not on people from outside, and therefore all knowledge and skills are useful, necessary and respected; where the percentage of illiteracy is high so the oral tradition is rich, and knowledge and skills are traditionally passed down from one generation to another.

For more information about the Barefoot College, go to its website; or write to: Director, The Barefoot College, Village Tilonia, via Madanganj, District Ajmer, Rajasthan 305816, India; or e-mail your inquiry to: barefoot@sancharnet.in

EDUCATION OF GIRLS VITAL IN FIGHTING POVERTY, UNICEF SAYS

Some 121 million children worldwide are out of school, increasing the likelihood they will die in childbirth or live in dire poverty, UNICEF recently reported. Almost all the out-of-school children are in developing countries.

"We stand no chance of substantially reducing poverty, child mortality, HIV/AIDS and other diseases if we do not ensure that all girls and boys can exercise their right to a basic education," said Carol Bellamy, UNICEF's executive director.

Of these 121 million children, 65 million are girls — 9 million more girls than boys. When they grow up and become mothers, girls who are educated are more likely to have healthy children and to ensure that their children, both boys and girls, complete school. But illiteracy and ignorance puts women at risk of not knowing how to space children and protect them as well as themselves against disease.

"When a girl is without the knowledge and life skills that school can provide, there are immediate and long-term effects. She is exposed to many more risks than her educated counterparts and the consequences are bequeathed to the next generation," according to the UNICEF report.

In September 2000, world leaders at the UN Millennium summit agreed to a series of goals to reduce poverty around the world. One was parity for boys and girls in primary education by 2005. Egypt for example, has pledged to end the gender-gap by 2007 by creating at least 3,000 'girl-friendly' schools, the report said.

In sub-Saharan Africa, 24 million girls did not go to school in 2002. This increase of 4 million since 1990 in part reflects a sharp drop in foreign aid. Africa's lowest overall enrolment for 1996-1992 was 11 per cent of primary school children in Somalia. In the same period, Tajikistan, the Netherlands and Sweden, for example, achieved 100 per cent, while Saudi Arabia was at 58 per cent.

BUILDING A KNOWLEDGE SOCIETY IN THE ARAB WORLD

Arab countries need to close a growing knowledge gap by investing heavily in education and promoting open intellectual inquiry, say the authors of the second *Arab Human Development Report*, published by UNFP in October 2002. Arab States should also encourage greater interaction with other cultures and regions of the world, the authors argue. Openness, interaction, assimilation, absorption, revision, criticism and examination cannot but prompt creative knowledge production in Arab societies, the report states.

The report analyses the current state of education, scientific research, the media, the publishing industry, culture (encompassing religion, intellectual heritage and the Arabic language) and other building blocks of a knowledge society in the Arab world. It finds the status of Arab knowledge today in terms of demand, production and dissemination is ineffectual, notwithstanding the abundance of Arab human capital. This contrasts with the region's rich, enquiring and pluralistic cultural and intellectual heritage — a robust foundation on which to build a knowledge society.

The report was authored, advised and peer-reviewed in a participatory process involving 70 Arab opinion leaders, development thinkers and practitioners from academia, civil society, the media and the private and public sectors.

The report is intended to stimulate dialogue among Arabs on ways to change the course of Arab history and afford the Arab people the decent lives to which they aspire and to which they are entitled. It is based on the unwavering conviction that reform efforts, which genuinely serve the region's interests, must be initiated and launched from within.

The five pillars of an Arab knowledge society

The report proposes a strategic vision for a creative renaissance buttressed by the five pillars of an Arab knowledge society:

1. Guaranteeing the key freedoms of opinion, speech and assembly through good governance bounded by the law. The report states: climate of freedom is an essential prerequisite of the knowledge society.... It is also imperative to end the era of administrative control and the grip of security agencies over the production and dissemination of knowledge and the various forms of creative activity that are the foundations for an Arab knowledge society.

2. Disseminating high quality education more fully. Arab countries need to radically improve the quality of all levels of education. Basic education should become universal and extended to 10 years. Special attention should be paid to early childhood learning and to life-long learning. In higher education, improving quality requires independent periodic evaluation of all programmes and establishing an independent Arab organization for accreditation.

3. Indigenizing science, universalizing R&D and joining the Information Revolution. Importing technology as embodied in products, machinery and services, is not equivalent to acquiring knowledge. Basic research should be encouraged and supported by appropriate funding and institutions, by establishing networks to link public, private and international sectors, and by focusing technological research on regional demand.

4. Shifting rapidly towards knowledge-based and value-added production. This calls for a decisive move towards developing renewable resources through knowledge and technological capabilities and towards diversifying economic structures and markets.

5. Developing an authentic, broad-minded and enlightened Arab knowledge model. This would include delivering pure religion from political exploitation and respecting independent scholarship; advancing the Arabic language by undertaking serious research and linguistic reform; reclaiming the intellectual strengths of Arab cultural heritage; promoting cultural diversity in the region; and opening up to other cultures abroad.

Openness, freedom and knowledge

The report confirms that Arab-Islamic culture at its zenith was a role model for borrowing and assimilation, followed by generous giving when it established its distinguished knowledge edifice. But it notes rising fear of cultural dissolution in an emerging global culture, as well as some trends towards isolation and rejection of values and ideas from outside. The report is outspoken about the need for deeper engagement with other peoples, cultures and regions, and argues that Arab culture cannot enclose itself, contented with living on history, the past and inherited culture, alone in a world whose victorious powers reach into all corners of the earth, dominating all forms of knowledge, behavior, life, manufactured goods and innovation.

Surveys of Arab public opinion summarized in the report show strong majority support for democracy and rejection of authoritarian rule. But recent advances — more women elected to parliaments, continuing expansion of cable news broadcasting by satellite — were partly eclipsed by new setbacks in freedom of opinion, expression and association, the authors say.

These setbacks were in part a reaction to the terrorist attacks of September 11, 2001. Arab countries as a group adopted an expanded definition of terrorism in the Arab Charter against Terrorism, which opens the door to abuse. It allows censorship, restricts access to the internet, restricts printing and publication, and does not explicitly prohibit detention or torture.

The report notes that Islam provides great incentives for knowledge acquisition, as shown by the Arab scientific renaissance in the past. However, in the absence of peaceful and effective political channels for dealing with injustices in the Arab world today, some political movements identifying themselves as Islamic have adopted extreme interpretations of Islam and violence as means of political activism. Also, the collusion between some oppressive regimes and certain types of conservative religious scholars has resulted in interpretations of Islam that serve the interests of those regimes, undermining freedom of thought, accountability of the ruling authorities and women's participation in public life. The authors conclude that delivering religion from political exploitation is necessary for building knowledge societies in Arab countries.

Invest in education, research and information infrastructure

The authors paint a disturbing portrait of the state of education at all levels and strongly urge major new investment in learning from the pre-school phase to advanced post-graduate research endeavors. Many children still do not have access to basic education, the report notes. Higher education is characterized by decreasing enrolment, and public spending on education has actually declined

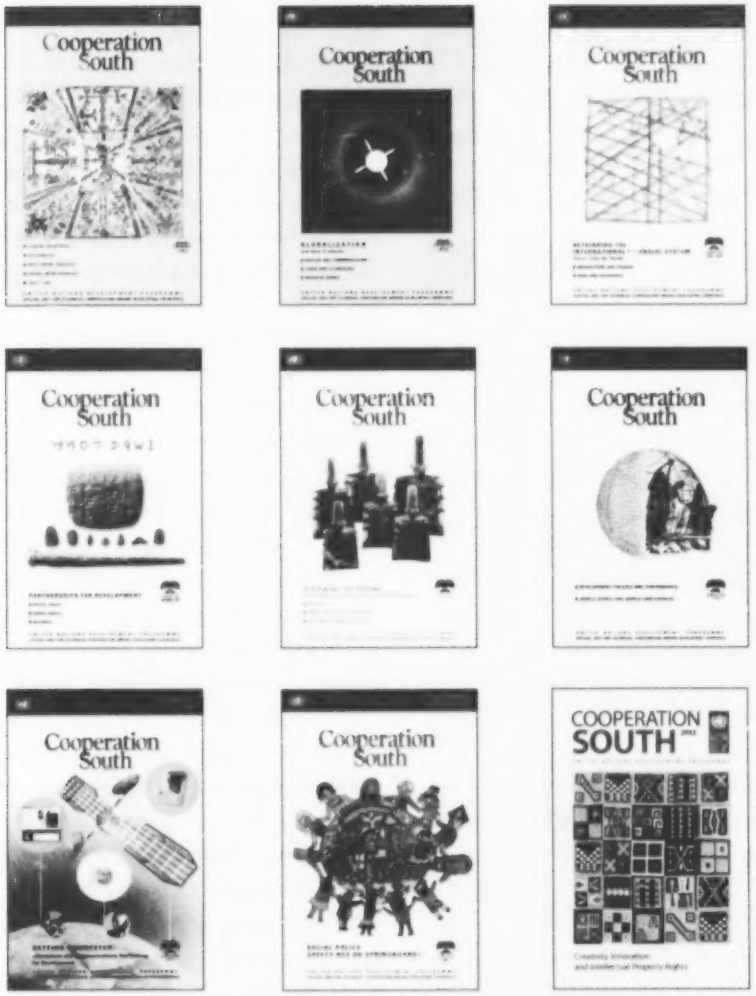
since 1985. In all cases, nevertheless, the most important challenge facing Arab education is its declining quality.

Scientific research in Arab countries is held back by weak basic research and the almost total absence of advanced research in fields such as information technology and molecular biology. Current state spending on research and development — mostly for salaries — does not exceed 0.2 per cent of GNP. The political and social context is inimical to the development and promotion of science. There are an estimated 371 research scientists and engineers per million citizens in Arab countries, compared to a global rate of 979 per million.

Communication infrastructure in the Arab world is also woefully inadequate. The number of telephone lines in Arab countries is barely one-fifth of that in developed countries. Access to digital media is also among the lowest in the world. There are just 18 computers per 1,000 people in the region, compared to the global average of 78.3 computers per 1,000 persons, and only 1.6 per cent of the Arab population has internet access, compared to 68 per cent in the UK and 79 per cent in the US.

At the national level, the report says, action to popularize information and communications technology as a tool for knowledge acquisition should focus on boosting literacy, especially among women; lowering monopolistic barriers for internet providers and telecommunications developers; lowering other internet access costs; overcoming restrictions on ICT access by gender, economic capability, geographic location or social conditions; and using ICT as a tool for life-long education.

Recent Issues of Cooperation South



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SHARING IDEAS

COOPERATION SOUTH is devoted to critical analysis and discussion of development issues of importance to the South. To this end, it welcomes the exchange of ideas and experience from all sectors, disciplines and viewpoints, and from sources ranging from policymakers and scholars to practitioners and community activists.

Readers wishing to take an active part in this dialogue are invited to comment on articles published in the journal and to contribute articles for possible publication. Letters and manuscripts, which are subject to editing, should be sent to the Editor-in-Chief, *Cooperation South*, as follows:

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SOUTH-SOUTH COOPERATION 25 YEARS AFTER

From 1978 to 2003, the international community has had 25 years' experience in South-South cooperation following the guidelines in the Buenos Aires Plan of Action for Technical Cooperation among Developing Countries (TCDC). The plan was adopted by the UN General Assembly in 1978 following a world conference on the subject. On 28 May 2003, this landmark anniversary was observed at the United Nations in New York at the High Level Committee on the Review of TCDC. Delegates heard a message from the UN Secretary-General Kofi Annan urging renewed commitment to South-South cooperation (reproduced below). Also, a challenge to strengthen private sector roles in South-South cooperation was given in a keynote address by Princess Basma Bint Talal of Jordan (excerpted below).

UN Secretary-General Kofi Annan: *Enduring Relevance, Renewed Commitment*

Twenty-five years ago, the Buenos Aires Conference on Technical Cooperation among Developing Countries gave voice to the need for South-South cooperation to address gross disparities in incomes, lack of equitable access to resources and other challenges facing the developing world. The resulting Buenos Aires Plan of Action, endorsed by the General Assembly in December 1978, remains highly relevant today.

We can see evidence of its enduring relevance in the emphasis placed on South-South cooperation at recent major conferences — including the South Summit in 2000, the Brussels Conference on Least Developed Countries in 2001, the Monterrey Conference on Financing for Development, and the Johannesburg World Summit on Sustainable Development in 2002. The spirit of South-South cooperation has been a major factor in the social and economic progress achieved by the member countries of the Association of South-East Asian Nations (ASEAN), and has been a strong bond, uniting member countries of Mercosur (the Southern Common Market), the Andean Group, the Rio Group and other subregional groupings in Latin America and the Caribbean. Most recently, the African Union launched a promising vision of South-South cooperation in the New Partnership for Africa's Development.

Amid the challenges and opportunities brought by globalization, South-South cooperation provides a framework in which developing countries who are making progress can share their proven development policies and strategies with others, in particular the least developed countries. It provides a tool for developing countries to help other developing countries reach the Millennium Development Goals. It offers opportunities to focus on new issues such as information and communications technology, where a number of developing countries are beginning to play a leadership role. And it is a crucial mechanism for addressing challenges of particular concern to developing countries, including the fight against diseases such as HIV/AIDS and malaria.

In all these areas, a broad South-South partnership involving governments, the private sector and civil society is critical. Equally crucial is the full engagement of the entire United Nations family. As we mark the twenty-fifth anniversary of the Buenos Aires Conference, I call on all of us to renew our commitment to South-South cooperation as a tool for building a better world in the twenty-first century.

Princess Basma Bint Talal of Jordan: *The Private Sector in South-South and Triangular Cooperation*

With an estimated population of 4.9 billion, the South has an abundance of the most important resource — people. The critical challenge is to unlock the creative potential of each and every individual in the South and to marshal a dynamic force for personal and socioeconomic progress throughout the developing world. This may sound utopian, but some countries of the South have made commendable progress in human resources development.

The UNDP Human Development Report 2001 identified world-class technological hubs that have emerged in the developing world to challenge Silicon Valley and other such technology centres in Europe and Japan. They include Bangalore in India, Kuala Lumpur in Malaysia, Campinas in Brazil, Gauteng in South Africa and El Ghazala in Tunisia.

The Human Development Report noted that the private sector had played a key role in the training of high-tech experts as a response to the new transnational demand for information technology specialists. The other side of the story is the increase in brain drain experienced by countries investing highly in education. In 2001, it was estimated that 100,000 Indians would emigrate each year after new visas were approved in the United States.... But the challenge which calls for public/private sector partnership is for developing countries that are investing in the education of their people to come up with strategies to create well-paying jobs that will attract a good number of their professionals to stay home and encourage others to return. The Republic of Korea, which has succeeded in providing incentives to keep their professionals at home, has important lessons that should be widely shared through South-South cooperation. Similarly, Singapore has not only been able to largely retain its brain workers but has succeeded in attracting 'foreign talents' in management and hi-tech fields from developing as well as industrialized countries.

The use of information and communications technologies as tools for development also requires more participation by the private sector in South-South arrangements. Due to their flexibility, ICTs can be adopted by small and medium-size enterprises to provide much needed communication services in city centres, slums or remote villages. Private sector investments in ICT are opening up communications-based jobs in developed countries for far flung techno-workers in the developing world. Mauritius and Togo house call centres providing telephone support services for international companies serving customers in Europe and North America. Cape Verde is known to have 'virtual security guards' whose jobs rely on the Internet to monitor Webcams in office parks on the East Coast of the United States.... I will submit to you that effective participation by the private sector in South-South and triangular ICT initiatives would go a long way to reduce instances of extreme poverty in the developing world.

An article in the 2002 edition of the journal *Cooperation South* warns that for at least 12 diseases, 99 to 100 percent of all patients globally are located in the South. To be sure, this group of 'neglected diseases' is a low priority for Northern private and public investors in the pharmaceutical industries. The number of patients suffering from such diseases as trachoma, syphilis, tetanus and leprosy is high, but their inability to pay for medicines is a disincentive for Northern companies to produce needed drugs, which bring in low economic returns. That is the grim reality that necessitates stronger public/private sector partnerships and South-South or triangular cooperation arrangements to support pharmaceutical and R&D initiatives in the South in order to address 'neglected diseases' with the urgency that life and

death emergencies deserve....

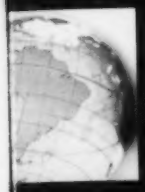
South-South and triangular cooperation in trade is another area that offers tremendous opportunities for the private sector to contribute to poverty reduction. The 50 largest transnational corporations from developing countries are expanding their worldwide reach. In 2000 the top leading TNCs from the South made it to the list of the top 100 companies worldwide. UNCTAD notes that this performance is record-breaking because for years, only Pertroleos de Venezuela was large enough to make it to the top 100 companies in the world.

This indicates that the business community in the South, with the capacity to compete globally, is growing. With this growth comes the challenge to form more businesses and alliances with the corporate responsibility to invest in the further expansion of the phenomenal market constituted by the 4.9 billion people who reside in the South.

A market approach to poverty reduction is eminently illustrated by the work of the Grameen Bank in Bangladesh and similar institutions, which provide credit to those lacking collateral. Private sector support to micro enterprises that enable the poorest of the poor to get out of the vicious cycle of poverty with dignity has great potential for meeting the Millennium Development Goal of reducing the number of people living in extreme poverty by the year 2015. Through my experience of working with the Jordanian Hashemite Fund for Human Development, the Queen Zein Al Sharaf Institute for Development and other organizations, I am convinced that non-governmental organizations and micro enterprises offer viable means for South-South cooperation to reach out and make a difference in the daily life of families in local communities.

New opportunities for the private sector to engage in triangular business arrangements with partners in the North and South are opening up in a growing number of North-South trade laws and agreements. To name only a few examples among many, the United States Africa Growth and Opportunity Act (AGOA) has presented a new window of opportunity for the African business community to interact with entrepreneurs from the United States and other parts of the world. In Senegal, a leading Senegalese apparel and textile company is working with a US textile manufacturer and a Malaysian firm to produce goods for export to US markets. In South Africa, through AGOA, a Malaysian company has announced plans to establish a US $100 million facility that promises to employ 13,000 workers.

All these initiatives and many more point to the vital interplay between the public and private sectors.... We must continue to reinforce such partnerships, strengthen our South-South and triangular alliances and help private-sector financiers and entrepreneurs do for the South what they do best — as investors, producers, traders and job creators.



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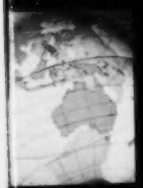

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CONVERGENCE: Movements for Regional Integration

■ CATCH-UP IN SOUTHERN AFRICA. Southern African countries are creating a free trade area by 2012 to untie around 90 per cent of intra-regional trade. Carolyn Jenkins asks how well such regional trade agreements work in promoting multi-country development. Do they help poorer countries 'catch up' with richer members of the group?

■ WHAT KIND OF TRADE INTEGRATION HELPS LATIN AMERICA THE MOST? North-South arrangements tend to be better for export stimulus and trade growth, but South-South agreements help the more advanced developing countries increase their specialization in value-added goods. Josefina Monteagudo and Masakazu Watanuki reach these conclusions, using a simulation model.

■ THE LONG ROAD AHEAD IN THE GULF STATES. It has been a long saga of unfulfilled promises of regional harmonization for the Gulf Cooperation Council since 1981. However, civic organizations have organized themselves well and there remains good potential for increased complementarity if current trends toward specialization are pursued, says Matteo Legrenzi.

■ EAST AFRICA'S EXPERIENCE, FROM COLONIAL TIMES TO PRESENT. Kenya, Tanzania and Uganda have a half century of regional integration efforts behind them. Since 1991, they have been building a customs union, which is expanding into additional spheres of action. Njuguna S. Ndung'u looks at where the East African Community is headed.

■ BRAZIL'S RESPONSE TO AIDS: A MODEL FOR THE SOUTH. In its response to AIDS, Brazil can be a model and inspiration for other countries. How did the model evolve and what are the challenges it faces? Can it be replicated in other poor countries? These questions are addressed by Pascual Ortells.

■ MIGRATION, REMITTANCES AND THE RURAL SECTOR IN LATIN AMERICA. Remittances sent home by migrants have become a significant factor in national development, especially in rural Latin America, and some migrant groups actively support projects in their countries of origin, as reported by Manuel Orozco with Michelle Lapointe.

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